The Automotive Industry: The Problems Continue— The German Perspective

Dr. Joachim Englert – Moderator PricewaterhouseCoopers; Frankfurt

> Wilhelm Becker BMW; Munich

Matthias Götz Kaye Scholer (Germany) LLP; Frankfurt

Paul Melville Grant Thornton, LLP; Southfield, Mich.

Martin Schwarzer
PricewaterhouseCoopers; Frankfurt

PricewaterhouseCoopers Advisory Services Automotive Suppliers – Industry in Crisis October 2007





Industry

Approach

Credentials

People

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Distresses cases in the automotive supplier industry

German Supplies in Insolvency

US Supplies in Insolvency















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Key reasons for industry turmoil

Global supply chain – Out of balance

Cost pressure

- Stagnating prices
- Increasing cost for raw material
- OEMs platform versus model strategy
- Need for global expansion

Innovation pressure

- Increasing model diversity
- Need for solutions in terms of design, comfort and safety

Growth limits

- Stagnating core markets
- Emerging markets

Management – Out of depth

Global expansion

- Need to adjust from mid-size local to global organization
- Processes and systems

Controlling

- Adjust to ever changing markets
- Close monitor ongoing operations
- Constantly improve operational efficiency

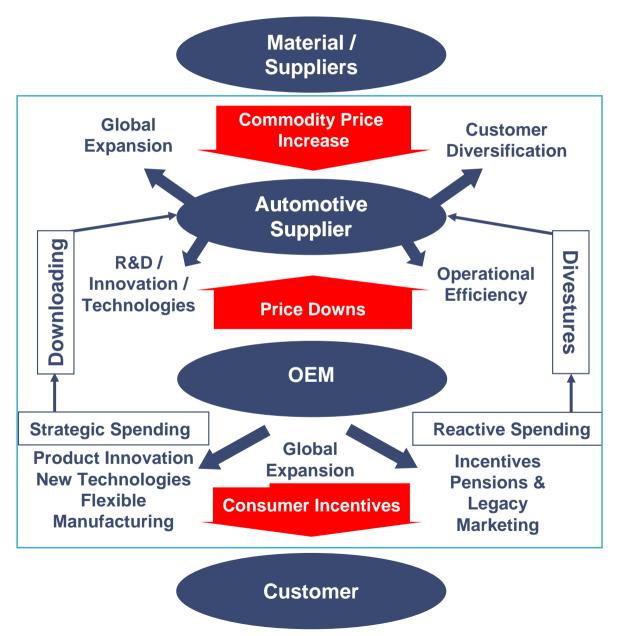
Skill set

- Balance engineering and financial skills
- Stay close to OEMs
- Stay close to financial community

Funding / debt level – Out of stability

- Financial burden, mainly a result from previous transactions
- Multiples down from 7 to 8 times EBITDA until two years ago to more like 4 to 5 times EBITDA
- Automotive suppliers still good investment for financial institutions (mainly due to steady cash flows); however, free cash flows are much lover than previously anticipated

Global Supply Chain Turmoil – An unsustainable situation



Cost pressure

- Inflation-adjusted prices stagnated over the last years in almost all vehicle classes.
- At the same time rising cost for raw material (China-Effect!).
- Platform versus model strategy
- Global expansion.
- Financial burden.

Innovation pressure

- As OEMs push platform strategies they are also differentiate their products (model diversity).
- The differences occur in design, comfort and safety, all of them driven by innovative solutions.

Growth limits

- Stagnating core markets.
- Suppliers' expectations for growth in the Emerging market have not materialize as expected.

Key Success Factors - MANAGEMENT

Strategic Position

- Size (scale)
- Diversification: OEMs, platforms and models
- Diversification: Regions
- Diversification: Products
- Competitive positioning, innovation power, flexibility
- Potential for revenue growth, new business

Operational Position

- Contracts: profitability, periods, single / second source
- Structure of booked sales / repeated business
- OEM price pressure
- Cost structure (common parts) / processes / profitability
- Tools (cost, financing, ownership)
- Capex needs
- Operational cash flow generation
- Financing of innovation
- Working capital
- Capital structure / maturity of debt / debt metrics
- Free collateral
- Strategic controlling / price calculation

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Financial Position

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Why PwC Automotive Advisory Practice – What we do

Prevention

or

Crisis

PwC has a group of skilled professionals dedicated solely to supporting our automotive clients. This team of industry-experienced professionals executes all aspects of crisis management, turnaround, performance improvement and corporate revitalization in the automotive supply sector, including:

- Strategic
 - Business plan development
 - Viability assessment
 - Optimized Exit / Distressed M&A
- Operational
 - Operational leadership and interim management
 - Manufacturing process and quality improvement
 - Supply chain management and revitalization
- Financial
 - Business plan development, assessment and progress monitoring
 - Financial forecasting and reviews, Liquidity management
 - Balance sheet restructuring and support in negotiation processes
 - Financial and IT-Effectiveness
 - Recovery strategies and turnaround

PwC AUTOFACTS - Global Data Solutions

EXAMPLE

3 Series E 46 - Volumes include South African 3 Series assembly. M3 series and Leipzig/Germany plant production is not included in PwC/Autofacts forecasts.

E90/91 - PwC/Autofacts forecast contain German production from the plants Dingolfing, Leipzig, Regensburg and Munich. A slower ramp up is expected.

5 Series E/39, E60/61 - Differences with the client's forecast are down to our position on the ramp up of the new E60 5 Series - we are forecasting a higher volume for the outgoing model and a later ramp up for the E60 5 Series. Last 5 Series peaked at 229,000 units - but the E60 5 Series will encounter more organised competition (Mercedes, Jaguar, Audi,...), and there are some doubts that the more radical styling is likely to marginalize more conservative customers. Competition for the new 5 Series is not just in its traditional D/E segment but also from premium SUV segment, crossovers, etc. M5 series is not included in the Autofacts forecasts.

X3 – Main variations between PwC/Autofacts and Clients' forecast are in assumptions over the capacity for Magna Steyr to assemble X3s. There is likely to be market demand for 140,000 units but we believe that capacity is constrained at Magna Steyr. Although Spartanburg (US) output is also a possibility to boost volumes in the future.

	Data	2003	2004	2005	2006	2007	
3er E46*	Vehicles Business plan	503.000	416.500	159.500	62.500	26.000	
	Vehicles MS	482.000	411.000	126.000	48.000	0	
	Vehicles PwC/Autofacts	428.741	389.263	181.786	15.083	0	
	Difference BP vs. MS	4,4%	1,3%	26,6%	30,2%		
	Difference BP vs. PwC/AF	17,3%	7,0%	-12,3%	314,4%		
3er E90/91*	Vehicles Business plan			300.000	400.000	380.000	
	Vehicles MS			290.865	384.422	426.040	
	Vehicles PwC/Autofacts			122.772	278.265	326.489	
	Difference BP vs. MS			3,1%	4,1%	-10,8%	
	Difference BP vs. PwC/AF			144,4%	43,7%	16,4%	
5er/E39*	Vehicles Business plan	65.000	0				
	Vehicles MS	44.005	0				
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Quelle: PwC Autofacts

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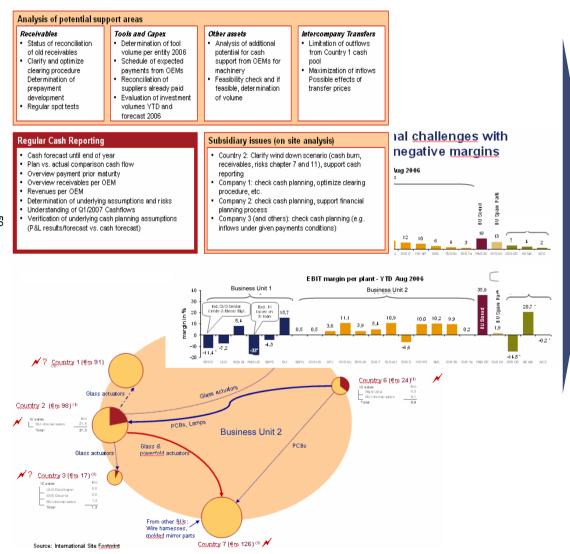
Credentials

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Supporting a group of OEMs with a Supplier in Crisis

Project "Swordfish" ongoing



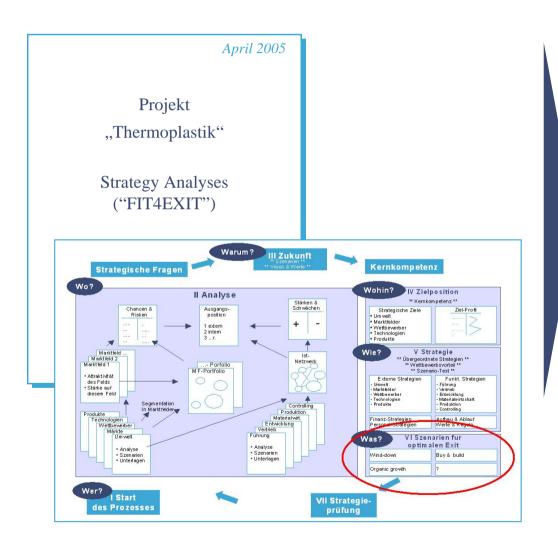
Background: The group – manufacturer of mirrors and lighting components – was facing the threat of insolvency for several month.

Restructuring Support PwC:

- Advised Group of OEMs on liquidity situation (daily/weekly cashflow), intercompany trade and dependencies between Business Units and Operating companies
- Coordination of OEM support (expedited payments, trust funds)
- Financial advisor in negotiations with all relevant stakeholders
- Support in orderly wind-down of production plant

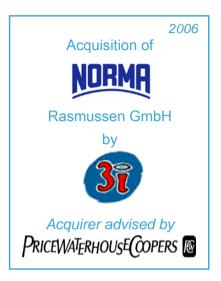
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Fit4Exit - Strategic analysis for PE-owned mid-sized automotive supplier



• Projekt: The group - manufacturer of plastic material parts for cars (under the hood) - was taken over by a financial investor in 2000. In the last 2 years the companies financial performance was well behind budgets and targets. The essential question raised by the financial investor was how the company would be structured, what a winning strategy would be and how it would operate by 2008, so the financial investor can get the best price when they sell the company in 2007 and to ensure the keeping of already existing suppliers and contacts.

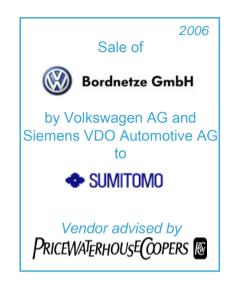
Selected transactions in the automotive industry



2005







BERGER SAFETY TEXTILES Management Buy-Out of **Berger Safety Textiles GmbH**

> PPM Capital advised by PRICEWATERHOUSE COPERS @

for € 125 m

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PPM Capital







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Industry

Distressed M&A

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Dr. Derik Evertz, Partner



Marie-Curie-Str. 24-28 60439 Frankfurt am Main Phone: +49 (0) 69 9585-5599 Fax: +49 (0) 69 9585-4499 derik.evertz@de.pwc.com

Background

Dr. Derik Evertz is Partner in the Business Recovery Services division since 2004. Previously Partner in one of the leading strategic consultancy (Roland Berger). Academic education as Dipl.-Wirtschaftsingenieur and further graduation with a PhD in economics.

Project Experience

About 10 years of experience in restructuring and strategic reorientation of industrial enterprises and service providers. He is well experienced in leading major and complex restructuring projects in different industries.

Specialises in following areas:

- Integrated restructuring and strategic reorientation.
- Performance improvement.
- Measure and implementation management.
- Concept ional design and implementation of management information systems.
- Substantial overhead reorganisation.
- Post-merger integration.
- Due diligence.

Industries

- Automotive.
- Consumer good.
- Retail.
- Financial services.
- Construction and construction suppliers.
- Mechanical Engineering.
- Media.

Dr. Joachim Englert, Partner



Marie-Curie-Str. 24-28 60439 Frankfurt am Main Tel.: +49 (0) 69 9585-5767 Fax: +49 (0) 69 9585-5988 joachim.englert@de.pwc.com

Background

Dr. Joachim Englert joined PwC Germany Corporate Finance in 1997 and spent 4 ½ years in the US with PwC's Business Recovery Services and FTI Consulting. Dr. Englert has been a partner in the area of Business Recovery Services since 2005. He holds a master degree and a PhD in Business Administration from University of Mannheim.

Project Experience

Dr. Joachim Englert specializes in financial restructurings and operational turnarounds. He has extensive experience in the development and execution of strategic, operational, and financial improvement initiatives for comprehensive value creation, both for corporate clients and creditors.

Specialises in following areas:

- Business Plan Analysis.
- Financial Restructurings and Operational Turnarounds.
- Due Diligence Processes.
- Business Valuation.
- Distressed M&A.

Industries

- Automotive.
- Engineering.
- Telecommunication.
- Constructions.
- Retail and Consumer Goods.

Thomas Steinberger, Senior Manager



Elsenheimerstr. 33 80687 Munich

Tel.: +49 (0) 89 5790-6443 Fax: +49 (0) 89 5790-6466

thomas.steinberger@de.pwc.com

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Background

Thomas Steinberger joined PricewaterhouseCoopers in 2005 and is Senior Manager in our Munich Office. His academic background is in engineering (Dipl. Ing.) and he holds an MBA (Berkeley).

Project Experience

More than 10 years experience in managing complex restructuring projects in medium-sized and stock market listed businesses. Previously as Senior Principal with a leading strategic Management Consultancy.

Specialises in following areas:

- Integrated restructurings and strategic repositioning.
- Operational restructuring and implementation management.
- Cost reduction and efficiency improvement programs.
- Cash-Management and Working Capital Management.
- Distressed M&A processes.

Industries

- Automotive
- Engineered products.
- Construction and construction suppliers.
- IT-Services.

Thank you.



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