

Winter 2009

Industry Update

The Impact of Today's Automotive Market Conditions

Companies in the automotive sector ranging from suppliers to original equipment manufacturers (OEMs) to car dealerships face an uncertain future. Bleak consumer confidence, rising unemployment, and tightening credit markets have drastically reduced new car sales. This has increased concerns about the sustainability of the Big Three U.S. auto companies and the potential rippling effect that a bankruptcy by any one of the Big Three would have on the rest of the economy.

New Car Sales

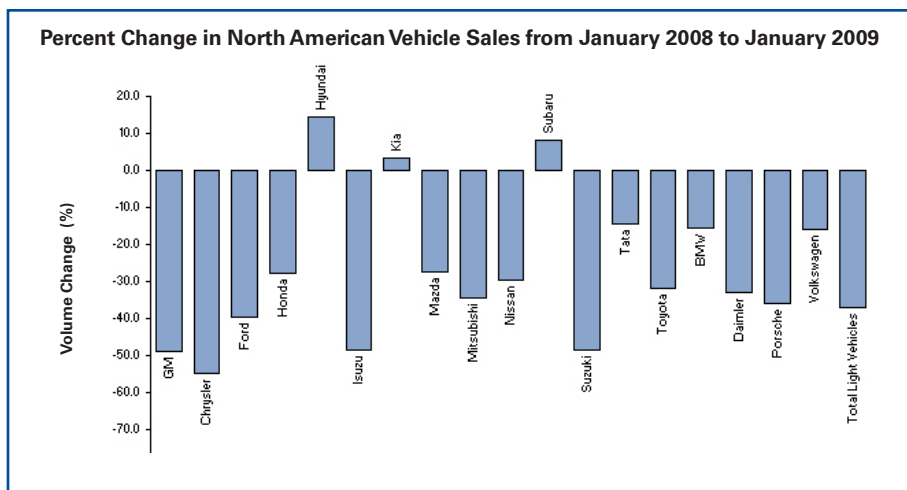
The U.S. auto industry has been experiencing a staggering reduction in automotive sales. Total auto sales in January 2009 were down 37 percent,

or 383,911 vehicles, from 2008 levels, reaching the lowest level since December 1981. Specifically, General Motors (GM), Ford, and Chrysler experienced a decline in car sales of 48.9 percent, 39.8 percent, and 54.9 percent respectively over the same period.¹ In addition, Toyota posted a 31.7 percent drop in car sales. Reduction in purchases by fleet operators, low consumer spending, and difficulty in obtaining car loans were the primary reasons cited for low auto sales.² Amid the drastic decline, car manufacturers are responding by aligning production with demand. Toyota Motor Corporation recently announced it is indefinitely suspending plans to start up its newest U.S. plant in Mississippi intended to manufacture hybrid vehicles. According to CSM worldwide, Toyota currently has 20 percent excess capacity

in North America. This news comes on top of increases in nonproduction days at several Toyota facilities and first-ever operating losses of US\$1.7 billion forecasted for fiscal year ending March 31, 2009, a signal that the ebbing world economy is taking a toll on even the historically better performing companies.³ Mazda Motor Co., Honda Motor Co., Chrysler LLC, and General Motors Corp. have also recently announced similar major production cuts. The decline in global auto sales has disintegrated the financial condition of U.S. automakers, while foreign automakers have also seen a significant decline in profitability.

Consequences of Bankruptcy

There has been considerable dialogue about one or more of the Big Three filing for bankruptcy in the near future, most notably GM and Chrysler. Both of these companies have claimed that they are at risk of running out of cash and have retained counsel for bankruptcy planning. GM and Chrysler received a combined US\$17.4 billion in emergency funding in December 2008 from the U.S. government. The U.S. auto industry supports approximately five million jobs in the United States. It spends approximately US\$12 billion on research and



Source: Ward's AutoInfoBank

¹ Ward's AutoInfoBank.

² The Wall Street Journal, "Detroit Reels as Auto Sales Skid," February 4, 2009.

³ The Wall Street Journal, "Toyota Sees First Loss in 70 Years," December 23, 2008.

development.⁴ A bankruptcy by one or more of the Big Three would result in severe consequences. In a recent study, Anderson Economic Group and BBK weighed the costs of bankruptcy versus federal assistance over a two-year period and concluded the financial cost of bankruptcy by two of the Big Three would be four times worse than granting US\$30 billion in bridge loans.

The study found the bankruptcy scenario would result in the loss of 1.8 million jobs over a one-year period and reduce federal and state tax revenue by US\$70 million over two years. Even under the bridge-loan scenario, the study indicates that significant reductions in employment and income, with resulting reductions in state and federal tax revenue would occur. However, the losses of employment, income, and tax revenue under bankruptcy would be unequivocally much higher.⁵

President Barack Obama has vowed to keep the Big Three from collapsing.⁶ In either scenario, suppliers and dealers face significant risks to their business. In February 2009, an industry group consisting of 400 auto parts manufacturers submitted a request asking for US\$25.5 billion in government aid.⁷ There is a real possibility that meager auto sales will halt the operations of many auto suppliers. Many suppliers

are already operating below break-even levels.⁸ The account receivables and inventories are at risk of potential write-offs as cash-starved automakers struggle.⁹

It is also becoming increasingly difficult for auto suppliers to secure credit. Tim Leuliette, chief executive of Dura Automotive Systems Inc., was cited saying, "Until the longer-term financial viability of the Detroit auto makers has greater clarity, the financial community is hesitant to fund any auto-supplier activity."¹⁰ In December, Fitch ratings placed the credit rating of seven parts manufacturers on a downgrade watch.

Suppliers & Dealers: Options to Weather the Storm

Industry veterans advise auto supplier and auto dealer companies to take aggressive steps in a timely manner to protect their businesses.¹¹ Companies can seek to boost liquidity by increasing cash on their balance sheet and delaying debt maturities. Cash is a key element of surviving the downturn. Capital raise, renegotiating debt terms, and leases, and entering into strategic joint ventures/mergers are possible options for generating cash. Chrysler recently agreed to a 35 percent investment from Fiat as part of an agreement to strengthen both companies. The table below shows some of the steps taken by

industry participants to preserve long-term sustainability.

In addition, companies are considering the delay of large capital projects, curtailing excess capacity, injecting efficiencies, and eliminating costs to reduce cash burn. This is evident by recent plant shutdowns and postponement of new plant startups by the Big Three and Toyota. Also when possible, tightening payment terms is a prudent option to generate cash. A small number of companies are requiring payment on demand; although that is a generally rare approach.¹²

Furthermore, industry analysts commend companies that are seeking ways to diversify revenue sources and deliver organic revenue growth to offset losses from the Big Three.¹³ Expanding geographic reach, entering complementary business lines, and increasing product offerings are potential options to diversify risks and grow the top line.

⁴ Ford Motor Company Business Plan, December 2008

⁵ *Auto Maker Bankruptcy*, "Four Times as Expensive as Bridge Loans, Study Shows," *Wardsauto.com*.

⁶ *The Times*, "Barack Obama reveals stimulus package that could exceed \$1 trillion," December 8, 2008.

⁷ *The Wall Street Journal*, "Auto-Parts Makers Seek Bailout," February 5, 2009.

⁸ *The Wall Street Journal*, "Many Car-Parts Makers Could Go Under," December 9, 2008.

⁹ *CIMB*, "Auto News," November 21, 2008.

¹⁰ *The Wall Street Journal*, "Many Car-Parts Makers Could Go Under," December 9, 2008.

¹¹ *The Wall Street Journal*, "Bankruptcy Fears Grip Auto-Parts Suppliers," January 26, 2009.

¹² *The Wall Street Journal*, "GM, Chrysler May Not Be Able to Pay Supplier," December 12, 2008.

¹³ *KeyBanc*, "Auto Parts Supplier," November 23, 2008.

Select Automotive Industry Transactions				
Company	Date	Event	Transaction	Transaction Value (\$ million)
VISTEON CORPORATION	6/3/08	Private Placement	Corporate Debt (Nonconvertible)	189.09
SMARTIRE SYSTEMS INC.	8/1/08	Private Placement	Convertible Corporate Debt	0.15
ROCKFORD CORPORATION	8/4/08	Shelf Registration	Common Stock	0.51
HAWK CORPORATION	8/7/08	Shelf Registration	Common Stock	11.53
ACME RADIATOR & AIR CONDITIONING, INC.	8/29/08	Merger & Acquisition	Mobile Climate Control Industries Inc. acquired the assets of Acme for approximately 1x EV/Sales	62.17
DINAN ENGINEERING, INC.	8/29/08	Private Placement	Common stock issued for business operations, repayment of shareholder loans, and for general working capital purposes	5.00
BBB INDUSTRIES, INC.	9/1/08	Private Placement	Intends to use the proceeds to support its expansion and develop a major new customer relationship with NAPA Auto Parts	25.00
SHELBY SUPERCARS, INC.	10/1/08	Merger & Acquisition	United EcoEnergy Corporation (OTCBB: UEEC) signed a term sheet to acquire 35 percent stake in Shelby SuperCars	6.00
AMERICAN AXLE & MANUFACTURING HOLDINGS INC.	10/3/08	Merger & Acquisition	Ontario Specialty Contracting, Inc. acquired Manufacturing Plant in Buffalo from American Axle	1.50
MOTOTRON CORPORATION	10/6/08	Merger & Acquisition	Woodward Governor Corporation (NASDAQGS: WGOV) acquired	17.00
HARMAN INTERNATIONAL INDUSTRIES INC.	10/23/08	Shelf Registration	Convertible Corporate Debt	400.00
INDESTRUCTIBLE I, INC.	10/28/08	Shelf Registration	Common Stock	0.24
ENVIRONMENTAL SOLUTIONS WORLDWIDE INC.	11/3/08	Private Placement	Convertible Corporate Debt issued for general corporate purposes to obtain product certification and to repay a portion of existing debt	6.00
SUPERIOR INDUSTRIES INTERNATIONAL INC.	11/10/08	Shelf Registration	Common Stock	41.41
DURAKON INDUSTRIES	12/23/08	Merger & Acquisition	Penda Corporation acquired the Company to solidify its technology	N/A
AVON VIBRATION MANAGEMENT SYSTEMS LTD.	12/31/08	Merger & Acquisition	Dong-Ah Tire & Rubber Co. acquired the Company to enter the European market and expand product offering	N/A
ENTIRE SOLUTIONS LLC	1/15/09	Merger & Acquisition	TRW Automotive (NYSE: TRW) acquired the Company to supplement its development of electronic systems	N/A

Market Snapshot											
Company	Market Cap ¹	Share Price ¹	52-Week Low	52-Week High	Price % Change 1 Mo	Price % Change 3 Mo	Price % Change 1 Yr	EV ² /Sales	EV ² /EBITDA	EV ² /EBIT	
AUTO PARTS SUPPLIERS											
AMERICAN AXLE & MANUFACTURING	59.2	1.09	0.95	25.00	-62.3%	-69.6%	-95.0%	0.4x	NM	NM	
AMERIGON INC.	76.0	3.43	2.45	20.37	5.2%	-28.5%	-80.0%	0.7x	6.2x	7.3x	
ARVINMERITOR INC.	129.1	1.75	1.70	18.11	-38.6%	-70.4%	-87.1%	0.1x	2.6x	4.1x	
AUTOLIV, INC.	1,292.9	18.39	14.49	62.63	-14.3%	-13.9%	-63.4%	0.4x	3.8x	8.0x	
AUTOMODULAR CORP.	6.7	0.26	0.13	1.70	16.6%	-33.4%	-82.7%	0.2x	1.1x	2.1x	
BORGWARNER INC.	1,954.6	16.88	15.00	55.99	-22.5%	-24.9%	-66.6%	0.4x	3.3x	5.3x	
CARROLL SHELBY INTERNATIONAL INC.	4.5	0.35	0.20	1.20	34.6%	20.7%	-32.7%	0.0x	0.0x	0.0x	
COMMERCIAL VEHICLE GROUP INC.	21.5	1.00	0.78	14.42	7.5%	-24.8%	-90.0%	0.2x	4.8x	10.1x	
COOPER TIRE & RUBBER CO.	275.1	4.67	3.67	20.80	-24.2%	-38.8%	-72.6%	0.2x	5.3x	NM	
DANA HOLDING CORPORATION	73.0	0.73	0.34	13.10	-1.4%	-61.6%	N/A	0.2x	3.9x	NM	
DELPHI CORP.	24.0	0.04	0.02	0.80	57.4%	-11.5%	-75.7%	0.2x	NM	NM	
DORMAN PRODUCTS, INC.	176.3	9.99	6.62	14.22	-24.3%	-11.2%	-9.8%	0.5x	5.1x	6.4x	
FEDERAL-MOGUL CORP.	572.6	5.76	3.12	21.25	36.2%	-19.7%	-72.5%	0.4x	3.7x	7.0x	
GENTEX CORP.	1,172.0	8.39	6.50	19.47	-5.0%	-12.5%	-47.1%	1.4x	5.8x	7.8x	
GOODYEAR TIRE & RUBBER CO.	1,488.8	6.17	3.93	30.10	3.4%	-30.8%	-75.5%	0.3x	3.4x	5.3x	
HARMAN INTERNATIONAL INDUSTRIES INC.	942.0	16.09	9.87	48.33	-3.8%	-12.4%	-65.4%	0.3x	3.2x	5.9x	
HAWK CORP.	152.8	16.98	10.15	25.63	2.3%	17.5%	-7.4%	0.5x	3.5x	4.1x	
HAYES LEMMERZ INTERNATIONAL INC.	9.2	0.09	0.07	4.05	-80.0%	-93.2%	-97.4%	0.3x	2.8x	6.1x	
JOHNSON CONTROLS INC.	7,430.9	12.51	12.36	36.49	-31.1%	-29.4%	-64.5%	0.3x	5.3x	8.0x	
LEAR CORP.	70.2	0.91	0.75	34.57	-35.5%	-53.3%	-96.9%	0.1x	3.6x	8.4x	
LINAMAR CORP.	217.7	3.35	2.66	14.36	10.3%	-48.8%	-79.7%	0.3x	2.3x	5.4x	
LKQ CORP.	1,614.6	11.55	8.70	25.00	-0.9%	1.0%	-35.4%	1.1x	8.4x	9.6x	
MAGNA INTERNATIONAL, INC.	3,123.1	27.73	23.53	66.25	-8.1%	-16.9%	-64.7%	0.1x	1.1x	2.1x	
MARTINREA INTERNATIONAL INC.	160.9	2.22	1.22	9.42	19.7%	-22.5%	-78.5%	0.2x	2.7x	4.7x	
MOTORCAR PARTS OF AMERICA INC.	55.0	4.60	2.90	12.00	17.9%	0.9%	-43.8%	0.6x	3.8x	4.5x	
NOBLE INTERNATIONAL, LTD.	7.8	0.33	0.22	13.51	-26.7%	-79.4%	-97.4%	0.2x	4.5x	66.4x	
PACIFIC INSIGHT ELECTRONICS CORP.	6.0	1.01	0.81	2.02	-23.2%	21.1%	-56.9%	0.2x	2.7x	16.9x	
PARKER HANNIFIN CORPORATION	6,139.1	38.21	31.29	86.91	-10.2%	-1.4%	-43.5%	0.7x	5.0x	6.2x	
ROCKFORD CORP.	4.5	0.53	0.39	1.77	-17.2%	-46.0%	-60.8%	0.2x	6.9x	22.2x	
ROYCE RESOURCES CORP.	1.1	0.02	0.02	0.39	-26.2%	-63.3%	-87.8%	3.6x	0.0x	NM	
SHILOH INDUSTRIES INC.	37.6	2.30	1.18	12.00	-23.3%	-54.1%	-71.0%	0.2x	2.3x	6.9x	
STANDARD MOTOR PRODUCTS INC.	43.9	2.35	2.17	10.02	-32.1%	-44.2%	-71.5%	0.3x	7.7x	13.3x	
STONERIDGE INC.	48.3	1.96	1.96	19.36	-57.0%	-65.6%	-78.1%	0.2x	1.5x	2.2x	
STRATTEC SECURITY CORP.	32.4	9.90	9.40	43.95	-39.8%	-53.9%	-73.7%	0.0x	NM	NM	
SUPERIOR INDUSTRIES INTERNATIONAL INC.	273.9	10.27	8.33	23.04	-2.4%	-28.2%	-43.6%	0.2x	3.5x	208.8x	
TENNECO INC.	86.0	1.84	1.31	30.41	-37.6%	-62.5%	-93.0%	0.2x	3.4x	6.7x	
TRW AUTOMOTIVE HOLDINGS CORP.	312.6	3.09	2.06	29.56	-14.2%	-51.1%	-86.6%	0.2x	2.5x	4.6x	
UNIVERSAL MANUFACTURING CO.	5.1	6.25	4.50	7.00	13.6%	0.2%	-7.4%	NM	0.0x	NM	
VISTEON CORP.	18.3	0.14	0.13	5.03	-60.0%	-79.7%	-96.5%	0.2x	3.2x	20.1x	
WABCO HOLDINGS INC.	1,045.3	14.95	11.56	54.93	-5.3%	-18.6%	-63.0%	0.3x	2.1x	2.7x	
WESCAST INDUSTRIES INC.	10.6	0.81	0.81	7.47	-1.6%	-65.1%	-89.9%	0.0x	NM	NM	
XPEL TECHNOLOGIES CORP.	2.1	0.08	0.04	1.89	-36.0%	-11.1%	-95.4%	0.3x	NM	NM	
Auto Parts Suppliers Median											
					-12.17%	-28.99%	-72.64%	0.4x	3.5x	15.1x	
<p>¹ Market Capitalization amounts are in millions, based on closing Share Prices as of January 31, 2009</p> <p>² Enterprise Value (EV) equals Market Capitalization plus Debt, Preferred Equity, and Minority Interest, minus Cash and Cash Equivalents</p>											

KPMG Corporate Finance

KPMG Corporate Finance provides a full suite of investment banking and advisory services to its domestic and international clients. KPMG Corporate Finance Automotive Services Team has significant automotive knowledge and experience gained through deep OEM, auto supplier, and auto dealer markets sector knowledge that we leverage across our diverse product offerings to advise clients on mergers and acquisitions, sales and divestitures, capital raises, restructurings, buy-outs, financings, fairness opinions, and other advisory initiatives. Contact one of our seasoned professionals to help you confidentially assess the strategic path that makes sense for your business.

In addition, KPMG Corporate Finance’s Special Situations Advisory Group (SSAG) works alongside industry groups to develop and execute the appropriate strategies in this difficult economic environment.

Our SSAG professionals regularly access alternative sources of debt and equity capital. These alternative capital sources are actively lending and investing into this restrictive credit market. We can execute strategies to help a company deleverage its balance sheet through a negotiated debt restructuring. Additionally, our SSAG can effectuate an accelerated M&A process for

all or a portion of your business, including noncore assets. Such transactions can quickly (30 to 90 days) raise cash for your business.

Operating in 62 countries, KPMG’s Corporate Finance practice comprises more than 2,200 professionals who are able

to help meet the needs of KPMG’s firms’ clients across the globe. In 2008, as a leading financial adviser, KPMG’s Corporate Finance practice completed 390 deals totaling US\$51.5 billion, according to Thomson Reuters’ global M&A league tables.

Companies should evaluate one or several paths toward preserving value and creating liquidity. These include:

Creating liquidity	<p>Debt restructuring:</p> <ul style="list-style-type: none"> • Negotiate with lenders to explore all opportunities to extend deadlines and increase availability. “Deleveraging” should be your mantra. • Negotiate with trade creditors to explore all opportunities to enhance liquidity by extending terms, consolidating vendor relationships, and considering debt-for-equity swaps.
Capital raise	<ul style="list-style-type: none"> • Confidentially seek financial and strategic partners domestically and internationally. • Confidentially seek alternative financing sources with more patient capital during this market cycle. • Monetize real estate via sale-leasebacks.
Acquisitions or disposals	<ul style="list-style-type: none"> • Confidentially explore opportunities either to sell all or a portion of the business, or to acquire strategically complementary businesses. • Market and dispose of excess owned and leased properties.
Cash management	<ul style="list-style-type: none"> • Implement a third-party analysis of your operations to identify cost rationalization and enhanced cash flow management techniques.

Contact Us

Chicago
Chrisanne Corbett
 Managing Director
 312-665-2779
 ccorbett@kpmg.com

Chicago
Saqib Akhter
 Associate
 312-665-2434
 ssakhter@kpmg.com

We welcome the opportunity to meet with you, learn more about your company’s objectives, and discuss our people and capabilities.

KPMG Corporate Finance — We Can Do a Great Deal Together.

KPMG Corporate Finance LLC is a leading middle market adviser serving domestic and international clients. We offer a full suite of investment banking and strategic advisory services. Visit us online at www.kpmgcorporatefinance.com.

Corporate Finance Services, including Financing, Debt Advisory, and Valuation Services, are not performed by all KPMG member firms and are not offered by member firms in certain jurisdictions due to legal or regulatory constraints. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2009 KPMG Corporate Finance LLC, a U.S. limited liability company, is a member of FINRA and is registered as a broker dealer with the SEC. KPMG Corporate Finance LLC is a subsidiary of KPMG LLP, a UK limited liability partnership and the UK member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. 14229BAL 020909

KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.