

#### INSIDE

# MEXICO'S AUTO INDUSTRY CONFERENCE

Industry Analysis • Opportunities for Suppliers

Conference · B2B

Dearborn. MI May 2015 Chicago, IL

Inside Mexico's Auto Industry Conferences
Dearborn, MI - Chicago, IL
May 2015

MEXICO NOW



# Discussion Topics

- Introductions
- 5 Key Megatrends Impacting the Automotive Industry
- Automotive Industry in Mexico
  - Key OEM Investments and Strategic Implications
  - Challenges Faced by Manufacturers in the Region
  - Success Drivers
- Framework for Profitable Strategy Development



### Automotive Practice at a Glance

2,000+

350+

Manufacturing & distribution clients

Automotive clients

23

Offices

85+

Years of Industry Experience

#### **Automotive Industry Expertise**

- ✓ Senior automotive professionals averaging 20+
   years of industry experience
- Substantial international expansion expertise
- Access to specialized knowledge through the Plante Moran Supplier Intelligence Center™
- Deep industry involvement
  - Original Equipment Suppliers Association (OESA)
  - Society of Automotive Engineers (SAE)
  - Precision Metalforming Association (PMA)
  - Automotive Aftermarket Suppliers Association

#### **Comprehensive Services**

- International Services
- *IT* Consulting
- Audit and Accounting

- ✓ Investment Banking (PM Corporate Finance)



# Automotive Strategy Leadership



#### **Daron Gifford**

- Partner, Plante Moran Strategy Practice
- Over 37 years working in the technology, manufacturing and automotive industries, with over 28 years in management consulting
- Prior leadership positions in the management consulting practices of Deloitte, KPMG, and A.T. Kearney



#### **Ted Morgan**

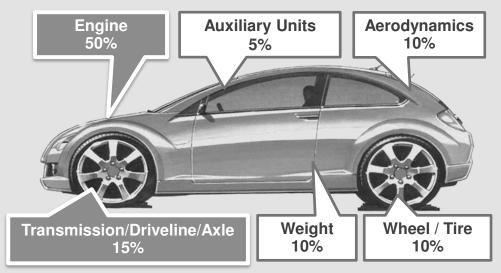
- Principal, Plante Moran Strategy Practice
- Over 15 years manufacturing experience with strategy, M&A, sales, product launch and financial background
- More than a decade spent working for manufacturers including Magna International and Meridian Automotive Systems, focusing on Mexican operations



## Megatrends in the Automotive Industry

- Mass/weight reduction
- Fewer and combined vehicle architectures
- Mobility technology
- Next generation powertrains
- Targeted emerging market growth

#### % Impact on Fuel Efficiency

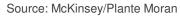


Technology innovation and related capital requirements will drive increasing partnerships, joint ventures, alliances, and consolidation in the automotive industry



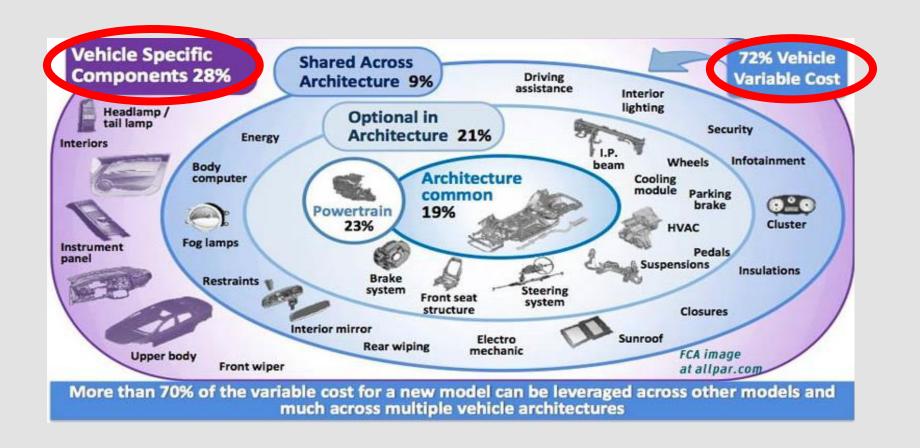
# Mass/Weight Reduction

	Material Comp	oarison To Steel	Percent Of		
Material	Cost As A Multiple of Steel	Weight As Percentage of Steel	Current	Projected 2030	
Steel	1.0x	100%	52%	13%	51%
HSS/AHSS	1.1-1.5x	80%	15%	<b>67%</b> 38%	J1 /0
Carbon Fiber	5-10x	50%	>1%	5%	28.5%
Composites/Plastics	1-2x	80%	9%	<b>15%</b> 11.5%	20.3 /6
Aluminum	1.3-1.5x	60%	5%	12%	
Other	-	-	19%	20.5%	





### Fewer and Combined Vehicle Architectures

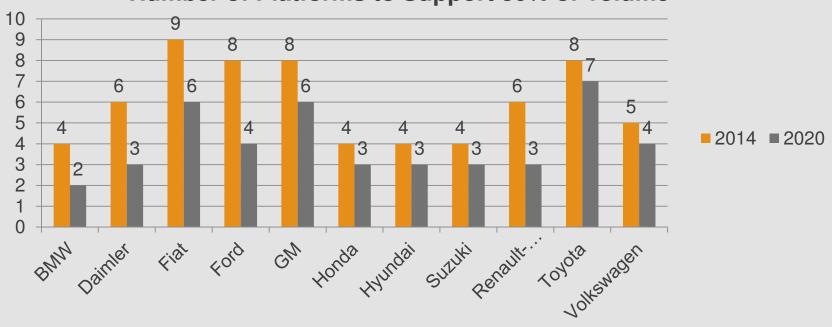


Source: FCA



## Fewer and Combined Vehicle Architectures



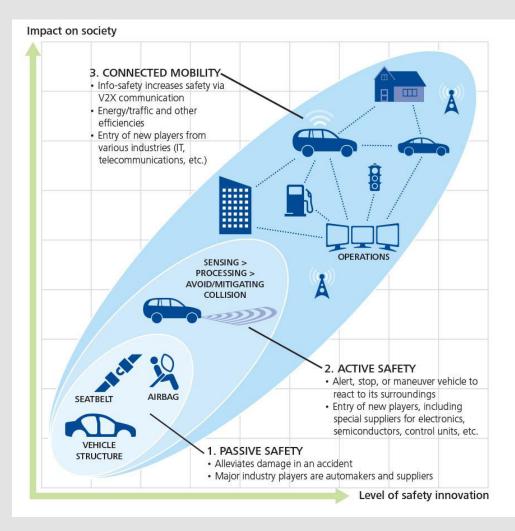


OEM	BMW	Daimler	FCA	Ford	GM	Honda	Hyundai	Suzuki	RNA	Toyota	VW
Total Platforms	8	16	23	19	25	9	13	11	18	28	21

Source: IHS



# Mobility Technology



#### Past - Passive Safety

- Designed to reduce damage in accidents
- Included seatbelts, improved vehicle architectures, airbags, etc.

#### Present - Active Safety

- Sensor technology that helps the driver with awareness of surroundings
- Includes forward collision warnings, adaptive cruise control, lane departure warning, etc.

#### Future - Connected Mobility

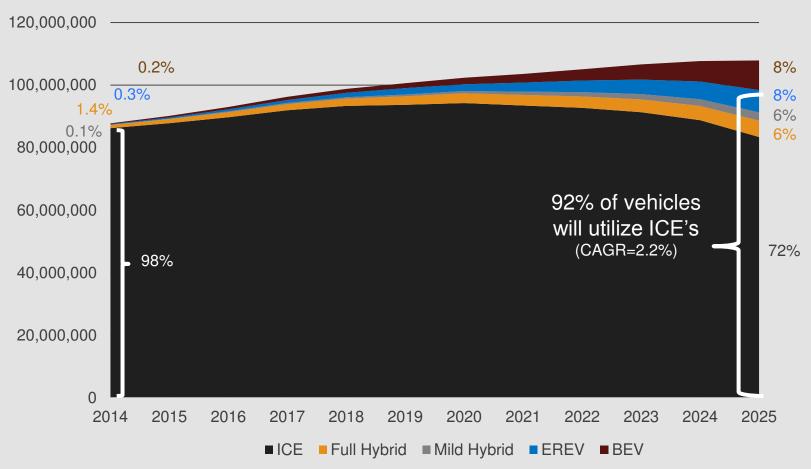
■ Vehicles will be able to communicate
 with each other to optimize traffic and
 reduce collisions, vehicle autonomy

Source: Deloitte/Plante Moran



## **Next Generation Powertrains**

#### Projected Global Volumes in Units



Source: Plante Moran/IHS



# Targeted Emerging Market Growth

	2013 Auto Production *	2019 Auto Production *	Increase in Unit Production 2013-2019	2013 GDP (\$ in billions)	Annual % GDP Growth (2014-2019)
China	22,117	30,598	8,481	9,240	5.9%
Brazil	3,740	4,557	817	2,245	2.9%
India	3,881	6,442	2,561	1,876	4.8%
Mexico	3,052	4,469	1,417	1,260	2.9%
Russia	2,175	2,728	553	2,096	1.8%
Indonesia	1,208	1,734	526	868	5.1%
Turkey	1,125	1,368	243	820	1.9%
Thailand	2,410	3,064	654	387	4.1%
Czech Republic	1,085	1,127	42	198	1.7%
Argentina	780	1,009	229	612	3.0%
Slovakia	823	932	109	96	3.1%
S. Africa	545	620	75	350	1.9%

<sup>\*</sup>Vehicle production in thousands of units

Source: World Bank, IHS



## OEM's Heavy Investments in Mexico

**Ford Picks** America's car **Mexico for \$2.5 GM to Double** capital will soon billion Engine **Mexico Production** be ... Mexico Investment Capacity, Invest -Forbes - Detroit Free \$3.6B in Plants -Automotive News Press Automaker Kia **BMW** to Invest to build \$1B \$1 Billion in new assembly plant **Plant in Mexico** in Mexico -Automotive News -Automotive News



## Evolution of Vehicles Produced in Mexico

Nissan Sentra



**Mercury Milan** 



**Pontiac Aztec** 



Audi Q5



**Dodge Ram** 



**BMW 3-Series** 

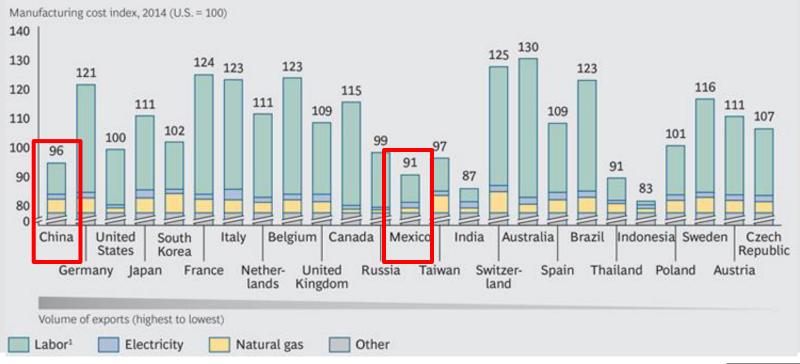




<sup>\*</sup> Production to begin in 2018

# Mexico – A Leader in Low Cost Manufacturing

- Analysis of Top 25 Exporting economies from 2004-2014 considered labor costs (adjusted for worker productivity), energy cost and currency fluctuation
- Mexico showed greatest improvement among all 25 economies driven by:
  - © Competitive labor modest wages increases with significant productivity gains
  - Energy costs Decreasing natural gas costs with cont'd gov't support to improve
  - Ourrency Stable Peso compared to the US Dollar

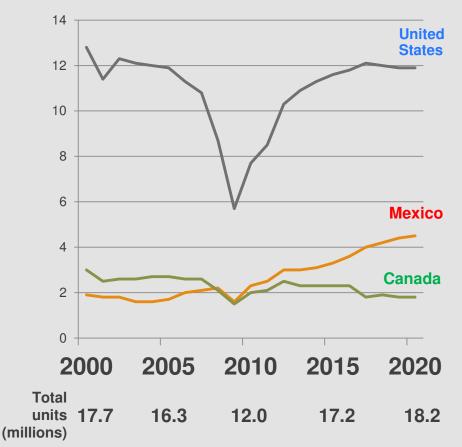






# Mexico's Favorable Long-Term Outlook

#### North American Vehicle Production



- Ourrently the 7<sup>th</sup> largest producer of automobiles in the world
- Future growth driven by
  - Continued growth in North America
  - Favorable trade agreements with 42 countries sets stage for significant growth outside of North America
- Mexican government support
  - Significant incentives at state level to promote new investments
  - Continued funding to improve infrastructure
  - Workforce development programs to develop skills relevant to automotive suppliers

Source: IHS



# Challenges in the Region

Challenge	Description
Availability of Labor	<ul> <li>Difficulty finding and retaining local management teams</li> </ul>
	<ul> <li>Manufacturers based outside of Mexico have to balance appropriate level of support of their management teams at Mexican plants</li> </ul>
	<ul> <li>High attrition rates within hourly work force due to wage sensitivities and low unemployment rate of 4.8%</li> </ul>
Supplier Infrastructure	<ul> <li>Tier 2 and other downstream suppliers are slow to set up operations (Tier 1 suppliers in Mexico imported \$38B of components, raw materials, tooling, and other resources to support \$79B in sales in 2014)</li> </ul>
	<ul> <li>Difficulties to obtain capital for smaller domestic and international manufactures (mostly Tier 2 and 3 suppliers) to fund Mexican operations</li> </ul>

Source: Automotive News. National Institute of Statistics and Geography



# Challenges in the Region

Challenge	Description
Changes in Tax Policy	<ul> <li>Companies struggle to keep up with the changing tax landscape</li> </ul>
	<ul> <li>Implementation of VAT certification process in 2015 (IMEX &amp; Maquiladoras entities must be VAT certified or be subject to VAT on imports)</li> </ul>
	<ul> <li>Recent changes to tax law increased effective taxable income rates by more than 100% at Maquiladoras (initially 3% tax was changed to 6.5% of expenses and/or 6.9% of assets)</li> </ul>
Safety & Security	<ul> <li>Safety conditions still remain a concern for business travelers despite recent improvements in safety</li> </ul>
	<ul> <li>Travel plans should be made to avoid dangerous areas and avoid traveling alone if possible (common sense approach)</li> </ul>

Source: Automotive News. National Institute of Statistics and Geography



# Success Drivers for Mexico Automotive Industry



• Manufacturing launch efficiency will be critical each year. As the number of vehicle introductions increase each year, the importance to OEM sales grows...leading to more extensive supplier technical support



• Fewer and combined vehicle architectures will drive up production volumes for suppliers, but reduce the number of suppliers...investing in targeted vehicle platforms will be critical to long term growth



 Commercial relationships must be more effective and efficient ...especially in areas including engineering and technical support, pricing and costing transparency, warranty responsibility, transportation and delivery)



 Innovation and technology will dramatically change the automobile...supplier products and technical knowledge can add critical value to the OEM



 Focus on the labor force by implementing programs to facilitate the development of employees as well as having strong collaboration between executive and local management teams

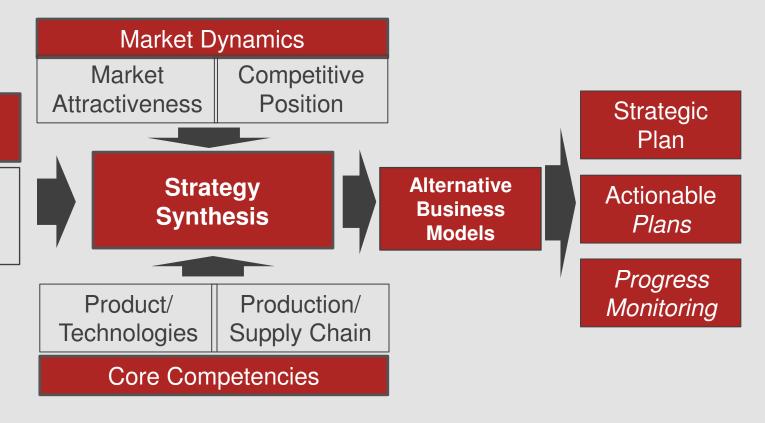


# Strategy Development

Effective Strategies for Profitable Growth

#### Company Assessment

- Capabilities
- Plans
- Performance





# Automotive Strategy Leadership



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Dearborn. MI May 2015 Chicago, IL

Thank you for your participation!

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