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2012 Automotive Institute Survey Results
State of the Automotive Industry



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Executive Summary

“Shifting gears”

In the past few years, the auto industry has gone through tremendous upheaval that has affected every link in the supply chain. Now that the financial crisis and recession appear to be lifting, how prepared is the auto industry for the future? To answer that question, the “2012 Dykema Automotive Institute Survey: Industry Challenges” queried 100 original equipment manufacturers (OEMs) and automotive suppliers. What it found: the industry is better prepared for some challenges than for others.

In general, the industry is prepared for a rise in demand and deal-making. Almost 93% of respondents report having experienced an increase in demand for what they are selling. More than three quarters of respondents say they have made changes in order to handle that increased demand.

It would also appear that they are ready for mergers and acquisitions activity to kick into gear. More than half of respondents say they plan to make an acquisition in the coming year, and 80% of raw materials suppliers are planning an acquisition.

But there could be a few challenges ahead in the form of materials costs, natural disasters and emerging technologies. Almost half of the survey’s respondents say they believe raw material cost increases will pose the greatest challenge to their supply chains over the next year. A surprisingly large percentage of respondents (41%) say they have not yet instituted crisis management teams, despite the March 2011 tsunami that hit Japan. Almost all respondents say they are concerned that new technologies in vehicles present new potential liabilities.

Some highlights from the survey:

- Almost 93% of respondents report they have experienced an increase in demand for what they are selling in the past year. Almost 77% of survey respondents say they have made internal changes to meet demand, and another 16% say they have been able to handle increased demand without making any internal changes.
- The auto industry is not fully prepared for another natural disaster. In the wake of the tsunami that hit Japan in March 2011, 84% of survey respondents say their company had an emergency team and plan in place prior to June 2011. But 41% —many of them parts suppliers—say they have not instituted crisis management teams with general plans to be used under Force Majeure.
- Fifty six percent of respondents seem prepared to do more M&A in the coming year, saying they plan to move forward with an acquisition. However, 43% of respondents say their companies decided not to move forward with an acquisition in the past year. What held them back? Valuations were the main thing (65%), particularly for parts suppliers. Also high on the list: due diligence (42%), as well as international fears, including slowing growth in emerging markets (35%) and worries about the Eurozone (27.5%).
- Raw materials costs pose the greatest challenge ahead to supply chains, according to 39% of respondents. Meanwhile, 21% list banks’ limited financial lending to auto companies and 19% say financially troubled suppliers. While just 13% overall say labor union issues are the primary challenge, that seems to be of particular concern to raw material suppliers.
- The survey shows that companies are investing in a variety of technologies to make cars safer, but remain concerned about liability issues. More than half of OEMs say distracted driving presents the biggest liability issue among emerging technologies. Nine percent of respondents say they believe privacy issues are the main potential liability issue tied to emerging technologies, and 52% of respondents say that the biggest privacy issue is unauthorized use of data. Meanwhile a quarter of the industry representatives surveyed worry consumers could reject technology, such as vehicle tracking, due to privacy concerns.
- Class actions remain a real source for concern among automotive companies. Twenty-two percent of respondents, most of them OEMs, report an increase in class action lawsuits.
- The top legislative issue for 30% of auto companies is energy and environmental legislation, while 26% say the main issue is transportation legislation. That is followed by tax reform (15%).

Respondents were asked to share their thoughts on the top challenges facing their company heading into 2013 in an open forum for comment and feedback. The following represent select verbatims received from survey respondents.

“Sub-supplier capacity limitations, and costs related to addressing sub-supplier quality control process improvement; skilled / salaried employee retention and additions”

VP at a Part Supplier

“Economic uncertainty; fuel-economy/greenhouse gas regulations”

Chief Economist at an OEM

“Navigating OEM warranty agreements and understanding potential economic exposures”

In-House Counsel at a Part Supplier

“Improving profit margins coupled with pressure from suppliers for raw material price increases that OEM’s will not recognize.”

VP at a Part Supplier

“Declining consumer confidence, raising consumer prices, uncertainty from the federal government”

Tax Manager at an OEM

“Protecting our intellectual property rights”

In-House Counsel at a Part Supplier

“Proactive approach with our customers, capacity increases being demanded by our customers and coverage of that capacity without significant investment”

CFO at a Part Supplier

“Economic growth or stability”

Senior Manager at an OEM

“Health care reform and cost containment.”

CFO at a Part Supplier

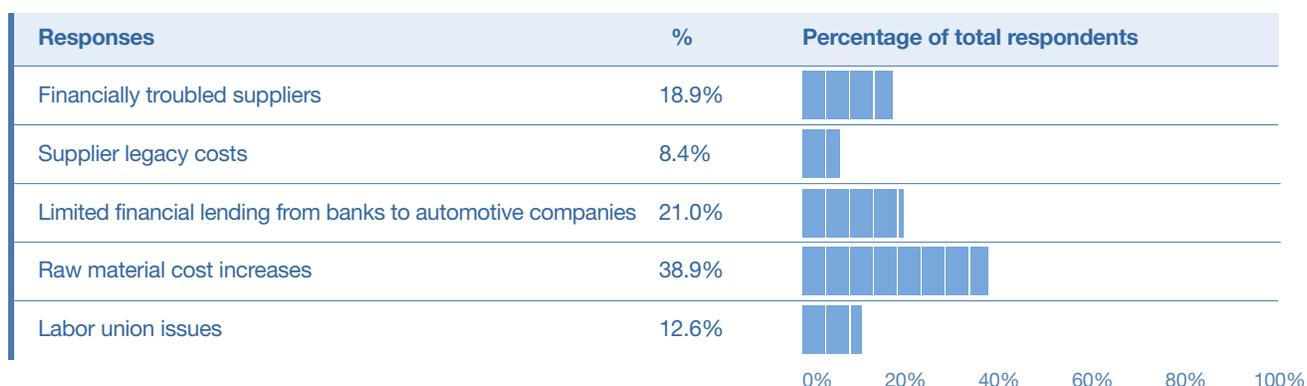
2012 Dykema Automotive Institute Survey: Industry Challenges

Over the past few years, the automotive industry has seen unprecedented changes. Yet more changes are on the horizon as automotive businesses face a wide range of new challenges in areas such as: supply chain management, privacy and data security tied to connected vehicle technology, class action litigation, regulatory issues, mergers and acquisitions (M&A), and intellectual property.

Historically, OEMs and tier one suppliers have experienced difficulty with market forecasting, which, in turn, has increased market instability. In an effort to gauge the state of preparation amongst automotive executives in the industry, respondents were asked to complete a short questionnaire designed to measure whether their organizations are prepared for the key challenges facing the global automotive industry.

The following charts represent the collective input of all of our respondents. A full overview of the survey methodology can be found at the end of this report.

Q1. Which of the following do you believe will pose the greatest challenge to your supply chain over the next year?

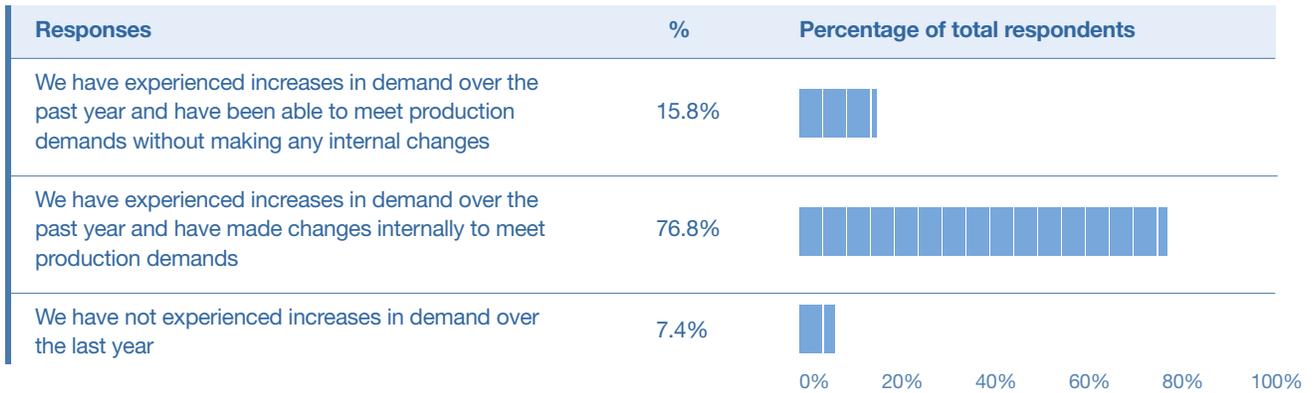


With more OEMs implementing global manufacturing strategies and exploring non-traditional supplier relationship structures, the already wide range of supply chain-related issues is growing exponentially in complexity.

Survey respondents shared their feedback on the top challenges impacting their supply chain, and the results were as following:

- About a third of respondents (39 percent) believe that raw material costs will pose the greatest challenge to their company’s supply chains in the coming year.
- 21 percent of respondents list banks’ limited financial lending to auto companies as their top challenge, followed by financially troubled suppliers (19 percent).
- While just 13 percent overall say labor union issues are the primary challenge, this may be of particular concern to raw material suppliers.

Q2. Which of the following statements represents your company's supply position:

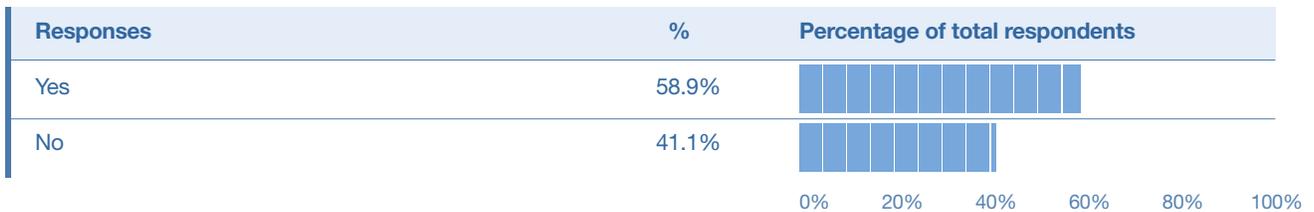


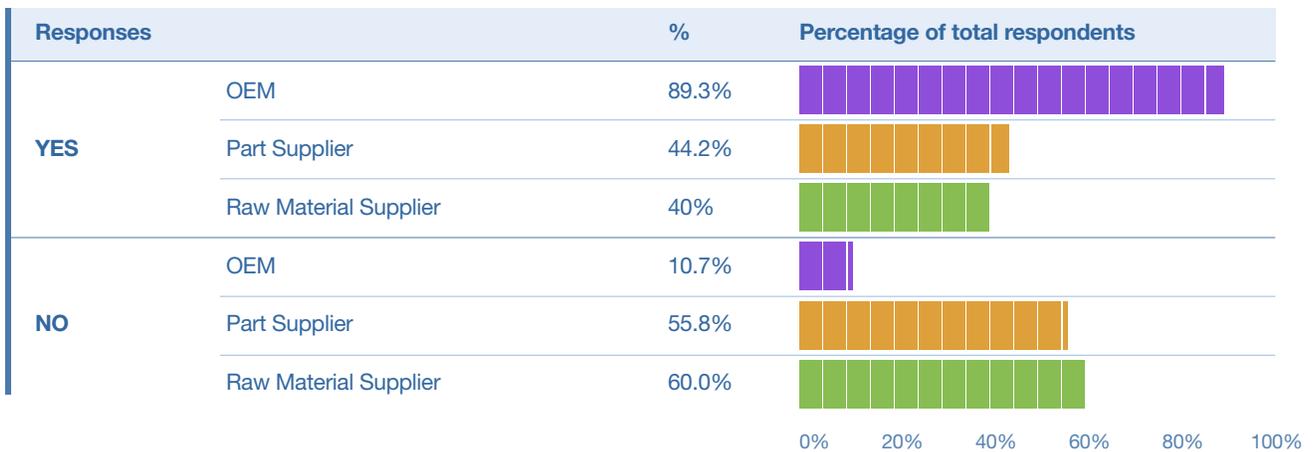
As automotive sales continue to rise, automotive manufacturers have boosted production to meet demand. There has been debate, however, whether OEMs and suppliers are in a position to be able to meet production demand, as, during the economic downturn, some OEMs and suppliers let their quality programs lapse, laid off workers, and have not been able to ramp up fast enough to take advantage of the recovery.

Survey respondents shared their thoughts on what their organizations have been witnessing internally on this matter:

- An overwhelming majority of respondents (93 percent) report they have experienced an increase in demand for what they are selling in the past year.
- 77 percent of survey respondents who have experienced increased demand say they have made internal changes to meet demand. However, what's not evident is whether their internal changes have allowed them to keep up.
- 16 percent of respondents say they have been able to handle increased demand without making any internal changes, and another 7 percent of respondents have not witnessed an increase in demand for what they are selling in the last year.

Q3. Following Japan's March 2011 tsunami and other recent natural disasters, did your company institute crisis management teams with general plans that are to be utilized under Force Majeure (chance occurrence, unavoidable accident) events?



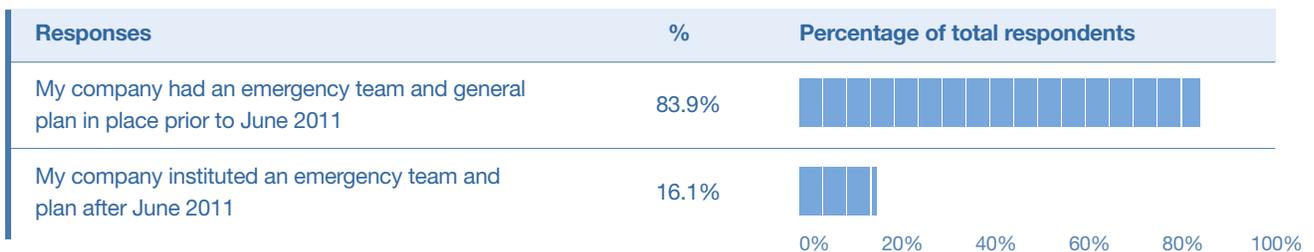


Japan's March 2011 tsunami, the Evonik fire, and other recent natural disasters impacted the automotive supply chain drastically and forced OEMs and tier one suppliers to think differently about their supply chain planning.

According to survey findings, the auto industry is not fully prepared for another natural disaster.

- In the wake of the tsunami that hit Japan in March 2011, a surprisingly large percentage of respondents (41 percent)—many of them parts suppliers—say they have not instituted crisis management teams with general plans to be used under Force Majeure.

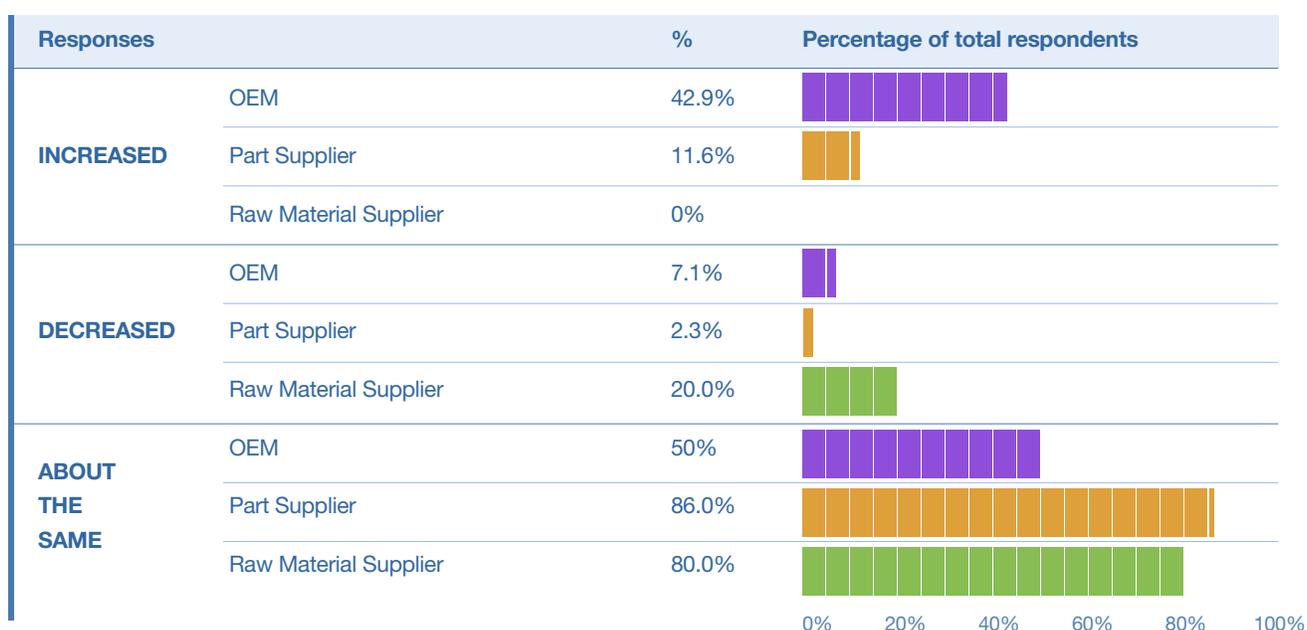
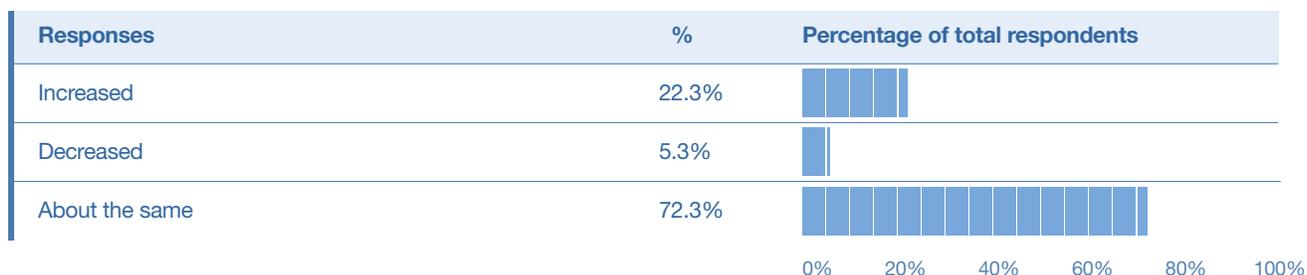
Q4. Which of the statements do you agree with related to the launch of your Force Majeure emergency management team and plan?



- For companies that did institute crisis management teams with general plans under Force Majeure, 84 percent of survey respondents say their company had an emergency team and plan in place prior to June 2011.

Note: This question was only made available to those respondents who confirmed they instituted crisis management teams with general plans utilized under Force Majeure following Japan's March 2011 tsunami.

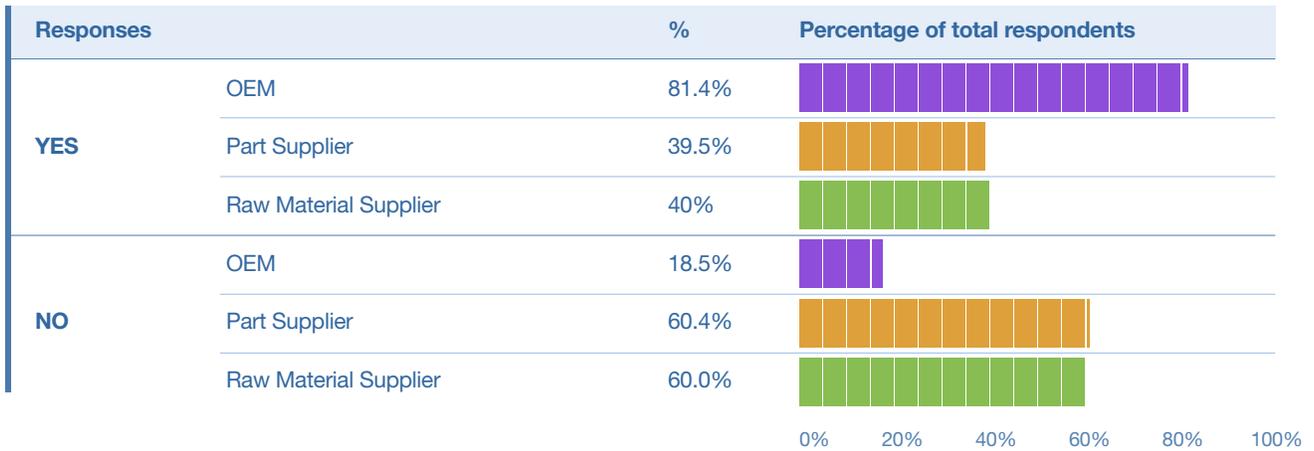
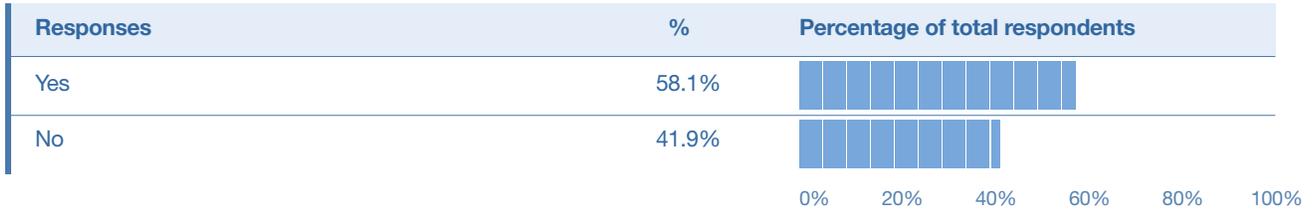
Q5. Taking a look back at the past two years, it's been reported that automotive companies have faced more class action lawsuits than previous years. Which of the statements do you agree with regarding the number of class action lawsuits your company has faced in the past two years?



Class actions remain a real source for concern among automotive companies. Contrary to conventional wisdom, the economic downturn led to a decline in some types of litigation, and the bankruptcies of prominent OEMs and some suppliers ended pending class actions. The trend since then appears to be upwards, particularly for OEMs.

- 22 percent of overall respondents confirm they have witnessed an increase in class action law suits the past two years, compared to previous years.
- Of the respondents who identified themselves as OEMs, 43 percent say they faced an increase in class action lawsuits the past two years; while of the respondents who identified themselves as suppliers, only 12 percent say they faced an increase in class action lawsuits the past two years.
- The majority of all respondents (68 percent) indicate that the number of class action lawsuits they have faced the past two years has remained about the same compared to previous years.

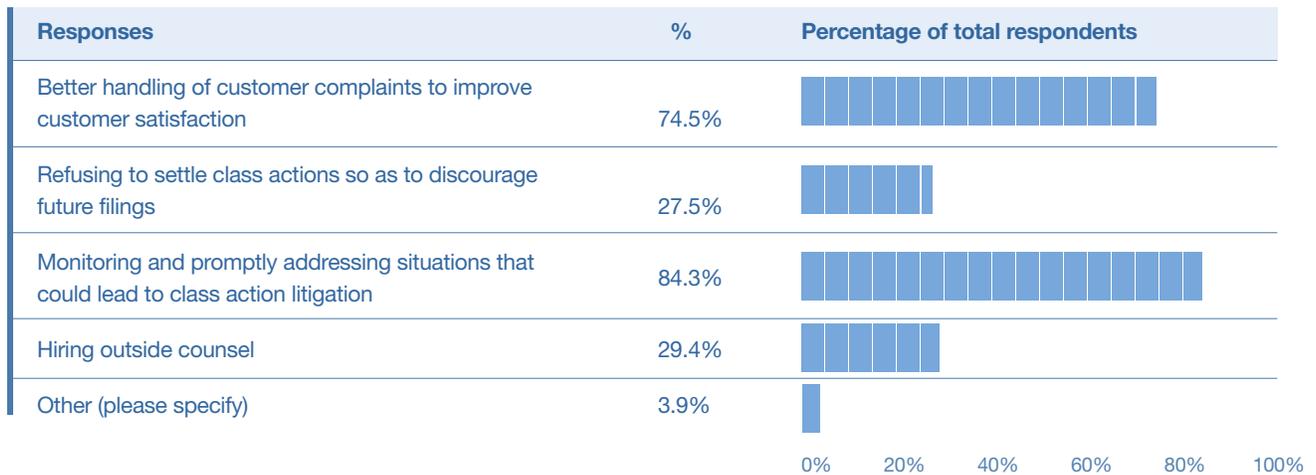
Q6. Has your organization taken steps in the last two years to try to reduce your company's exposure to class action litigation?



Class action lawsuits pose real risks to an automotive company's brands, corporate reputation, and bottom line. The best way to defend against a class action is to avoid having one filed against you in the first place.

- Survey respondents appear to agree with these potential risks, as 58 percent of overall respondents confirm their organizations have taken steps in the past two years to try to reduce their exposure to class action litigation.
- Class action risks appear to be more relevant to OEMs, as 82 percent of respondents who identified themselves as OEMs responded that their organization has taken steps in the last two years to try to reduce their company's exposure to class action litigation. Only 41 percent of respondents who identify themselves as suppliers have taken such steps in the last year to reduce their exposure, which may indicate that they perceive less risk as compared to OEMs. However, suppliers overall are less likely to experience class action exposure.

**Q7. Which steps has your company taken to reduce exposure to class action litigation?
Check all that apply.**

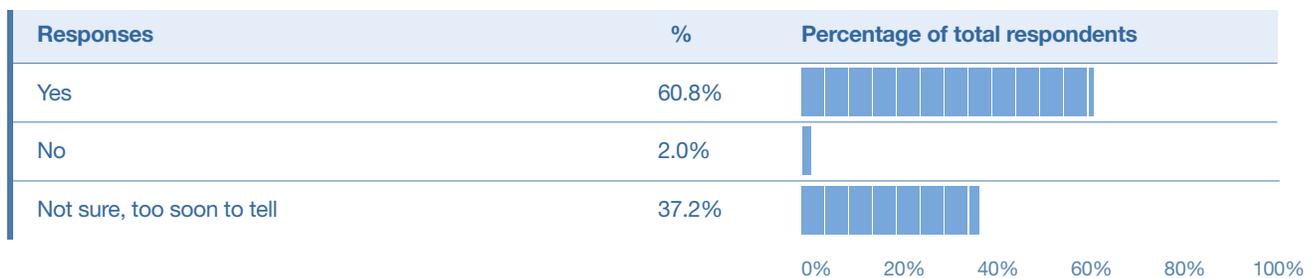


Keeping the customer happy remains the key to success in business, as well as helping to fend off class action litigation. Automotive companies are also striving to stay on top of situations that could lead to class action litigation.

- Monitoring and promptly addressing situations that could lead to class action litigation (84 percent), as well as better handling of customer complaints to improve customer satisfaction (75 percent), are the top steps that respondents say they are moving forward with at this time to reduce exposure to class action litigation.
- Only 28 percent of respondents are refusing to settle class actions as a means to discourage future filings. Whether this is a reflection of an attitude that refusing to settle doesn't work, or a belief that taking a class action to trial simply involves too much risk, is difficult to say.

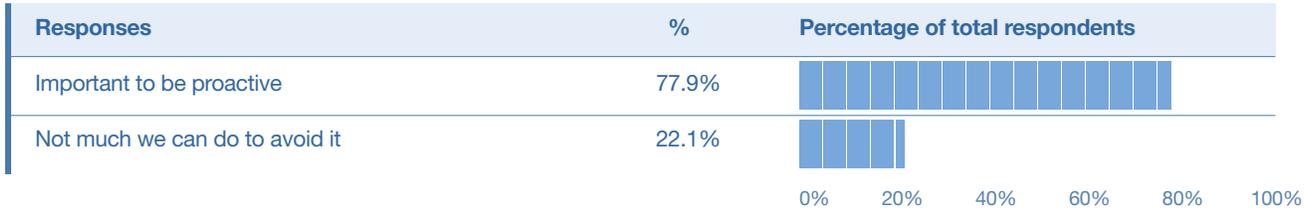
Note: This question was only made available to those respondents who confirmed they have taken steps to reduce their company's exposure to class action litigation.

Q8. Do you believe the steps your company has taken have been effective in reducing your company's exposure to class action litigation?



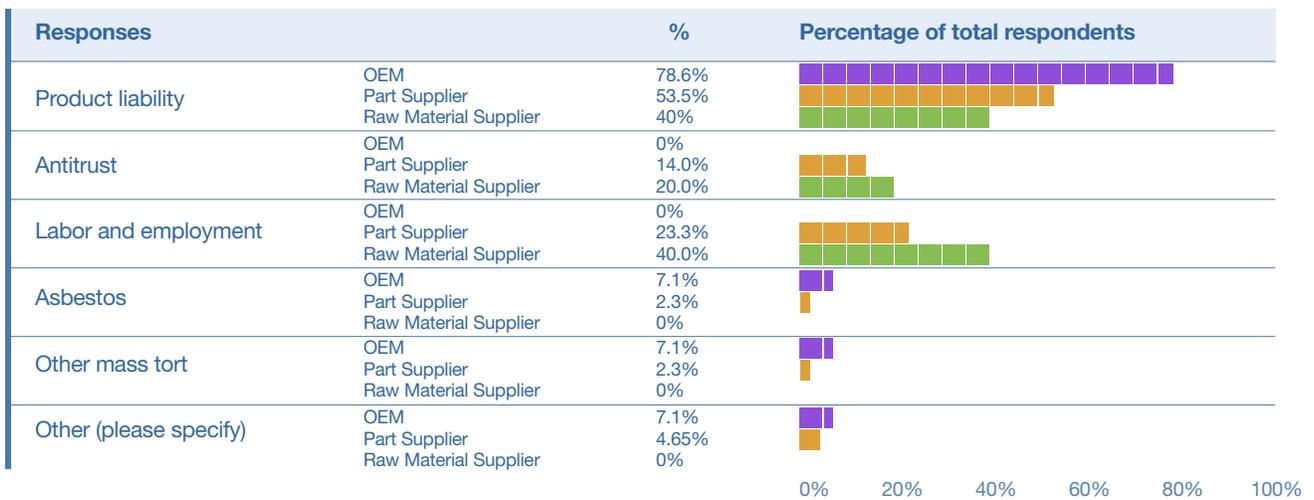
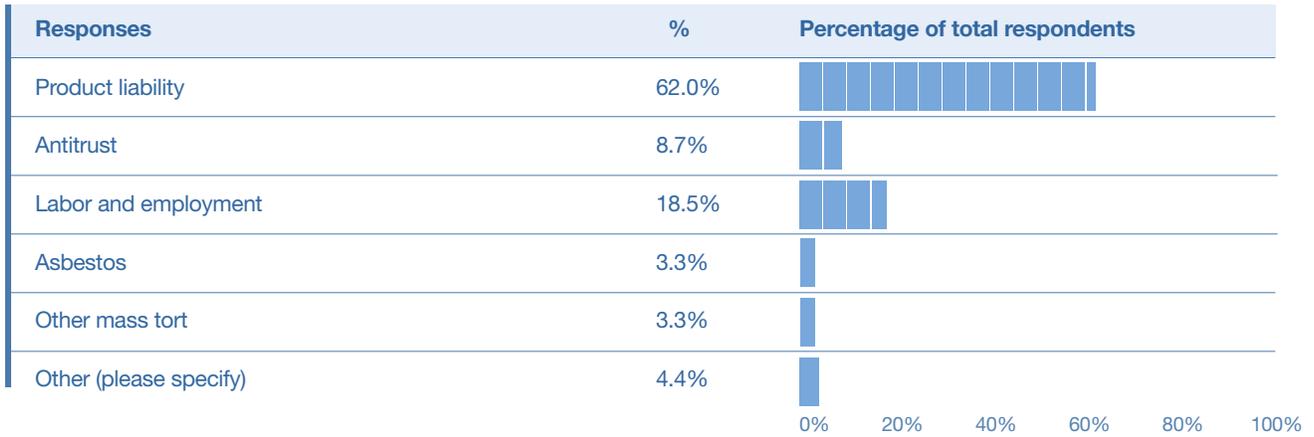
- The majority of respondents (61 percent) who have taken steps to reduce class action litigation exposure believe that they have been effective.

Q9. Do you think it is important to be proactive in order to try to avert class action litigation, or do you think there is little your company can do to avoid it?



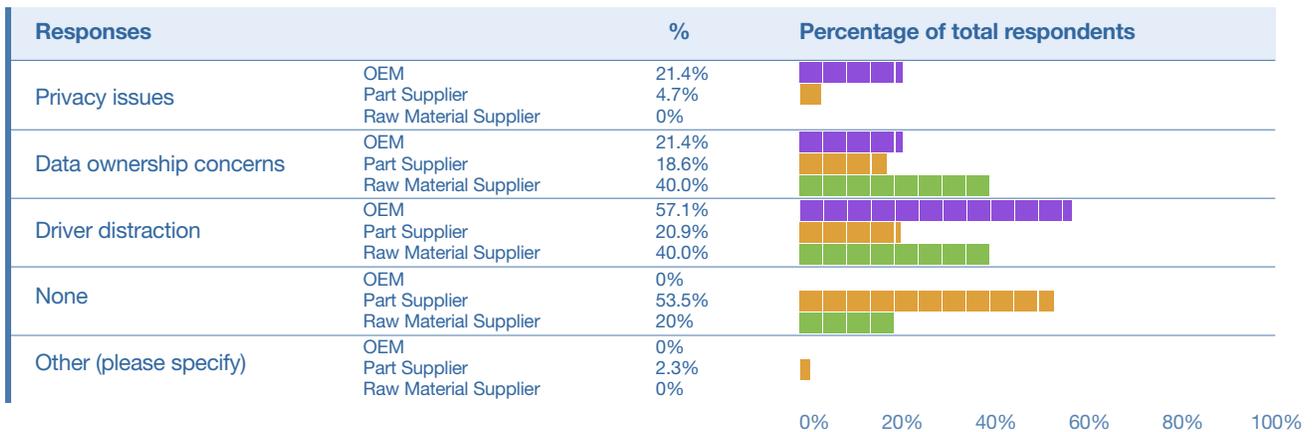
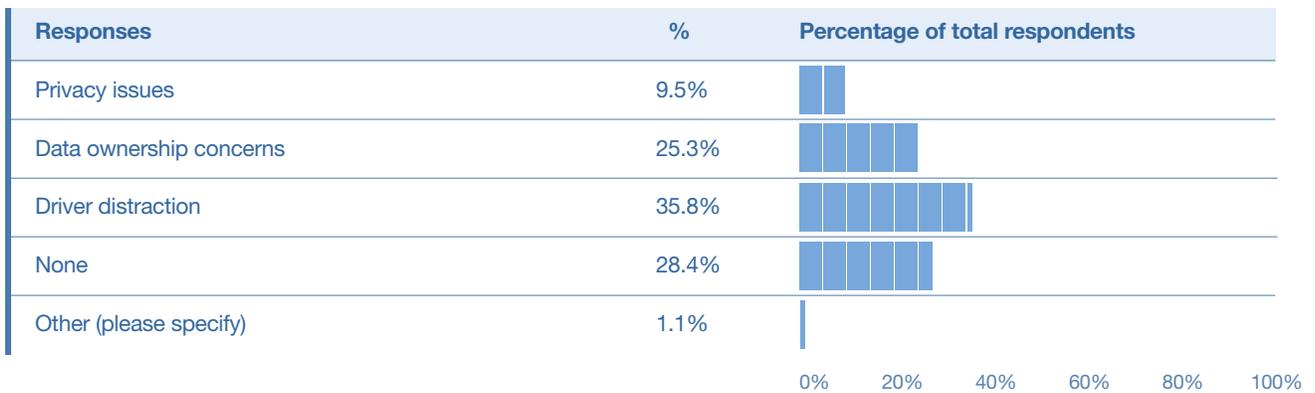
- The majority of respondents (78 percent) believe it is important to be proactive in order to minimize class action litigation, consistent with the responses to Question 7, which identifies a number of proactive steps many companies are employing. This proactive stance reinforces that respondents are now recognizing that the risk that a class action will actually be filed against them is more real than it used to be.

Q10. Which single type of class action is the biggest threat to your company?



- The majority of overall respondents (62 percent) believe that product liability class actions are the biggest threat to their company. 79 percent of these same respondents were OEMs, while 45 percent of them were suppliers.
- 23 percent of OEMs and 40 percent of suppliers indicate that Labor & Employment is the type of class action that is the biggest threat to their company.
- While antitrust class action filings appear to be on the upswing, only nine percent of overall respondents believe this type of class action litigation is the biggest threat to their company. This may be a result of respondents moving forward with actions to address reform and review compliance policies in light of the very public global prosecution of the decade-long automotive supplier price fixing that impacted a number of companies in the automotive industry.

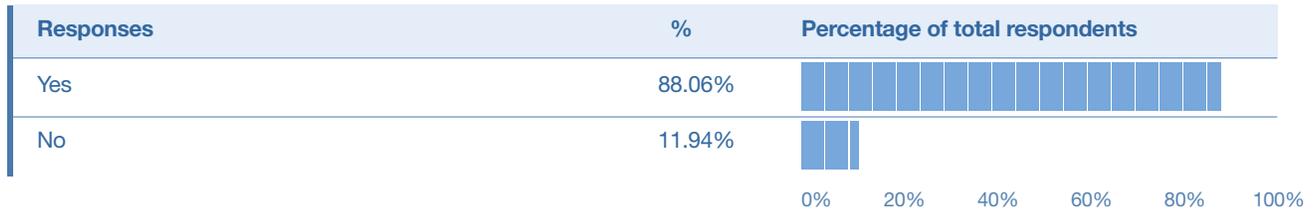
Q11. Which of the following potential liability issues tied to connected vehicle or other emerging technologies is your company most concerned about at this time?



The focus of connected vehicles has expanded in recent years as the technology of car communications has expanded. While connected vehicle technology is becoming more prevalent, there are still numerous technical, legal and privacy issues to be worked out, including major concerns over distracted driving, safety and protection of personal information.

- A majority of all respondents and more than half of OEMs (57 percent) specifically, say distracted driving presents the biggest liability issue among emerging technologies.
- Only nine percent of all respondents say they believe privacy issues are the main potential liability issue tied to emerging technologies.

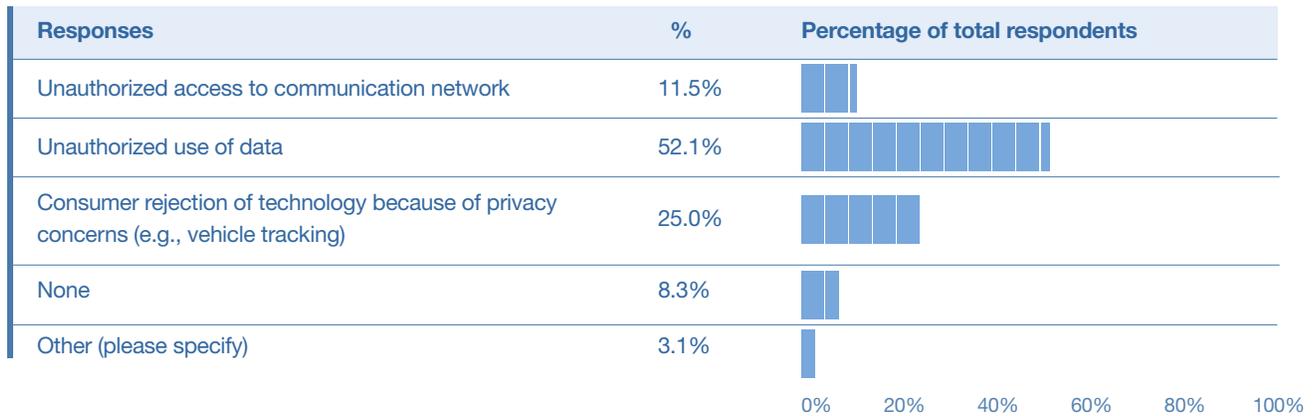
Q12. Does your organization have plans in place for the liability issues you identified?



- A majority of respondents (88 percent) confirm they have plans in place for the liability issues tied to connected vehicle or other emerging technologies.

Note: This question was only made available to those respondents who chose specific liability issues they were concerned about tied to connected vehicles or emerging technologies.

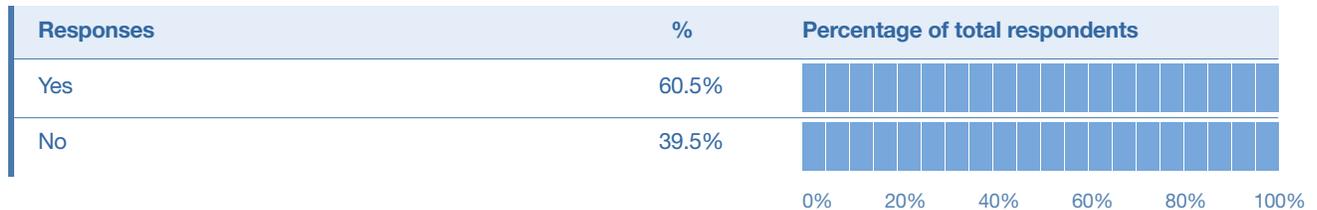
Q13. Which of the following do you perceive as the biggest privacy issue related to connected vehicle or other emerging automotive technologies?



- 52 percent of respondents say that the biggest privacy issue related to connected vehicle or other emerging technology is unauthorized use of data.
- Meanwhile, a quarter of the people surveyed worry consumers could reject technology, such as vehicle tracking, due to privacy concerns.

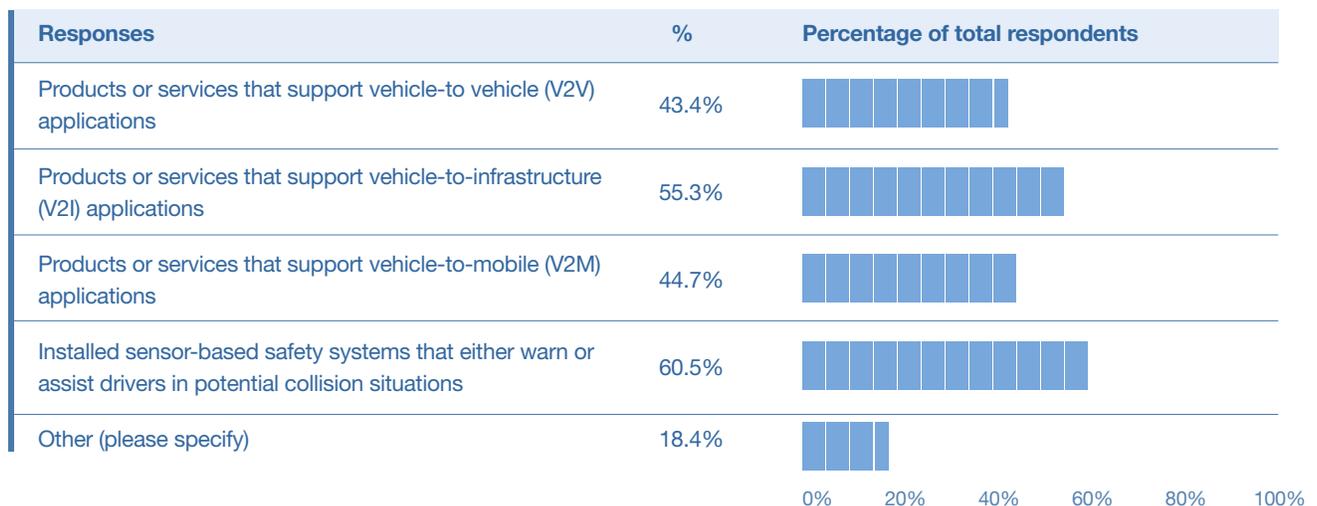
- Respondent’s concerns, however, may be contrary to many consumers views related to connected vehicle technology. For example, from August 2011 to January 2012, in six cities across the country, Connected Drive Clinics were set up and designed to help the federal government and its auto industry partners gauge how drivers would respond to communication-based vehicle-to-vehicle (V2V) safety warnings. Of the 688 people who participated, 82 percent said they would like V2V technology in their daily driving, and more than 90 percent said they thought safety features of the technology could enhance real-world driving situations and possibly help avoid accidents.

Q14. Does your organization have plans in place to prepare for the privacy issues you identified?



- While 92 percent of respondents in Question 13 identified a number of privacy issues they were concerned about related to connected vehicles and other emerging technology, 40 percent of respondents have not put plans in place yet to prepare for these issues.
- Asbestos, mass tort, and other types of class actions were identified by a small percentage of companies as their biggest threat in this area.

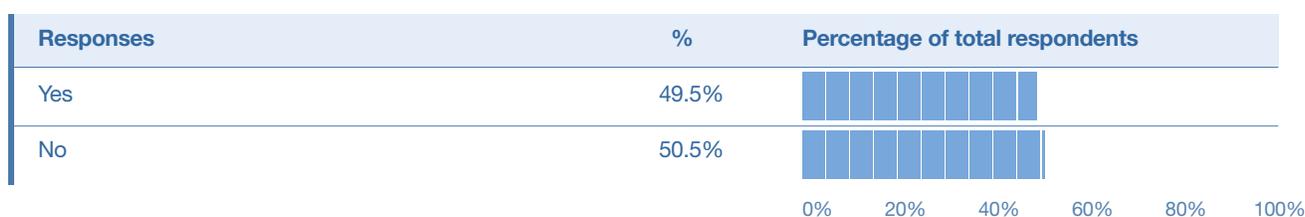
Q15. Is your company investing in any of the following technologies to make vehicles safer for consumers? Check all that apply.



According to the National Highway Traffic Safety Administration (NHTSA), vehicle-to-vehicle communication has the potential to be the ultimate game-changer in roadway safety. However, much work needs to be done to apply the technology in an effective way in the real world.

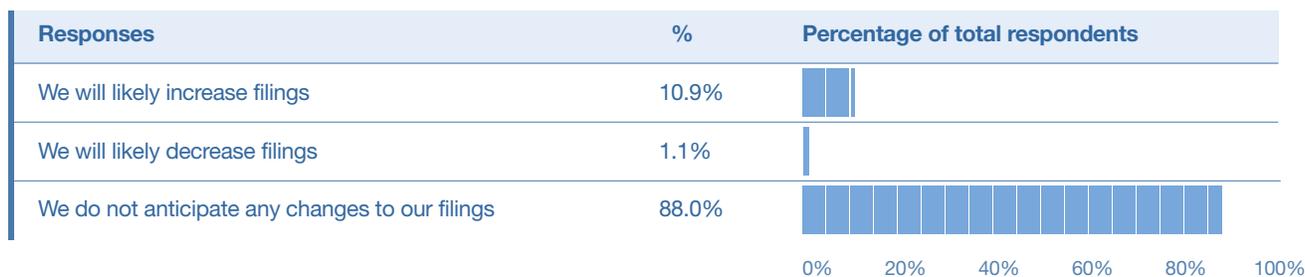
- This is technology that many OEMs and suppliers are looking to take advantage of within their organizations, as a majority of respondents (60 percent) confirmed they have installed sensor-based safety systems that either warn or assist drivers in potential collision situations, followed by products or services that support vehicle-to-infrastructure (V2I) applications (55 percent).

Q16. NHTSA is projecting a 2013 decision date on whether to proceed with NHTSA rule making on a V2V system. Does your organization have plans in place to prepare for a possible NHTSA decision to proceed with a V2V rule making, assuming the rule making would result in a final V2V rule within two to three years?



- While a majority of respondents have invested in V2V technology to make vehicles safer for consumers, 49 percent of respondents have plans in place to prepare for a possible NHTSA decision to proceed with a V2V rulemaking; and 50 percent of do not.

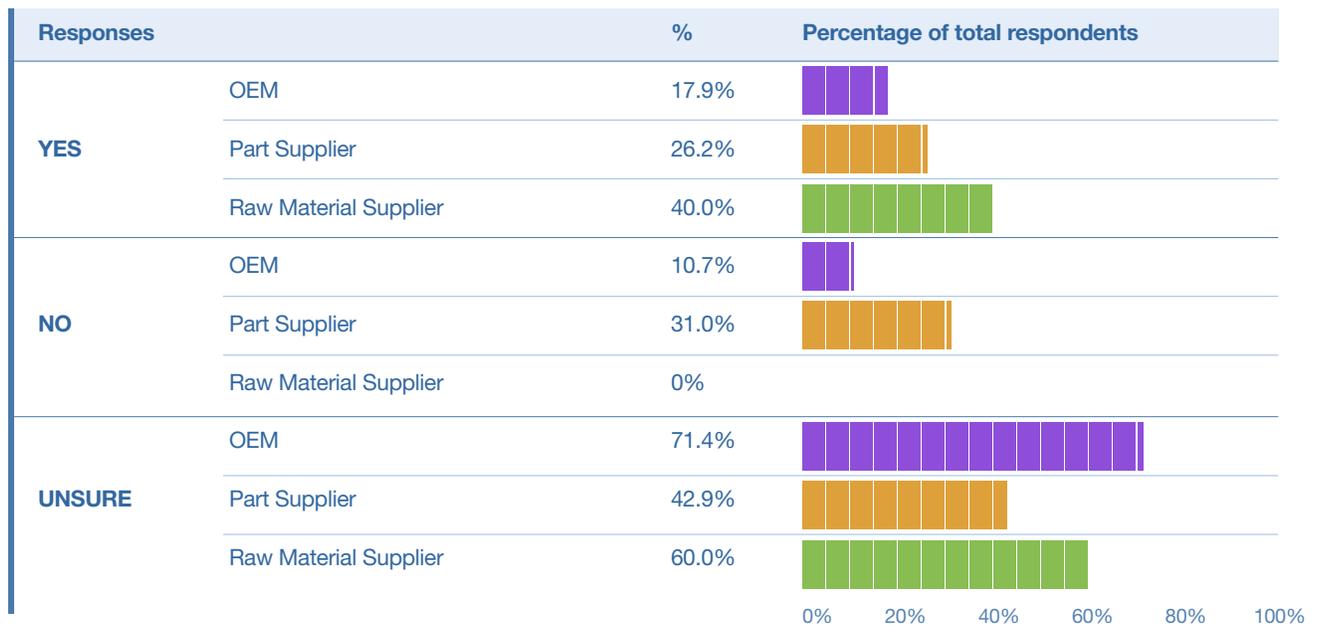
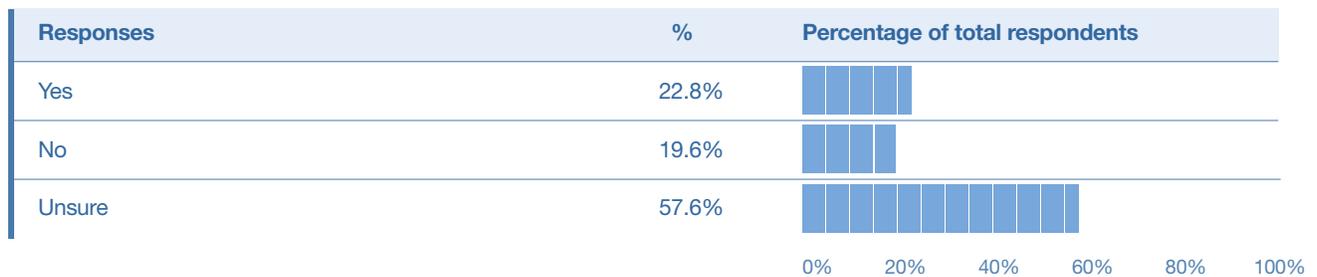
Q17. The US Patent Trademark Office recently announced that it has concluded a five-year lease agreement for office space for its new satellite office in Detroit, Michigan. The agency plans to open the office no later than July 2012. Do you plan to change your policy on patent prosecution in order to take advantage of potential cost savings with a USPTO office coming to Detroit?



- The majority of respondents (88 percent) do not anticipate that the opening of a new USPTO office in Detroit will have any impact on their patent filings.

- Only 11 percent of respondents confirm their company is likely to increase their filings in light of the new office in Detroit.
- While there may not be more filings anticipated in the new USPTO office in Detroit, the government will certainly focus this office to be a hub of public dissemination of important information for the automotive industry.

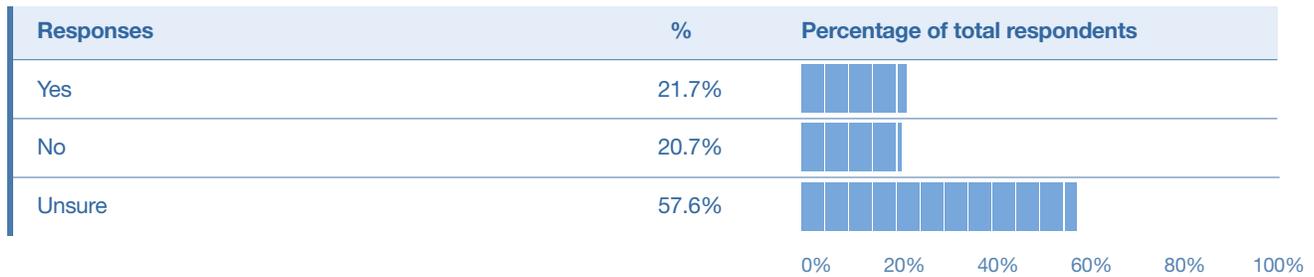
Q18. In light of the USPTO opening up in Detroit, are you likely to decrease filings in Washington, D.C.?



While a majority of respondents do not anticipate that the opening of a new USPTO office in Detroit will change their policy on patent prosecution, 57 percent of respondents are unsure whether the opening of the USPTO office in Detroit will decrease the number of filings their companies move forward with in Washington, D.C.

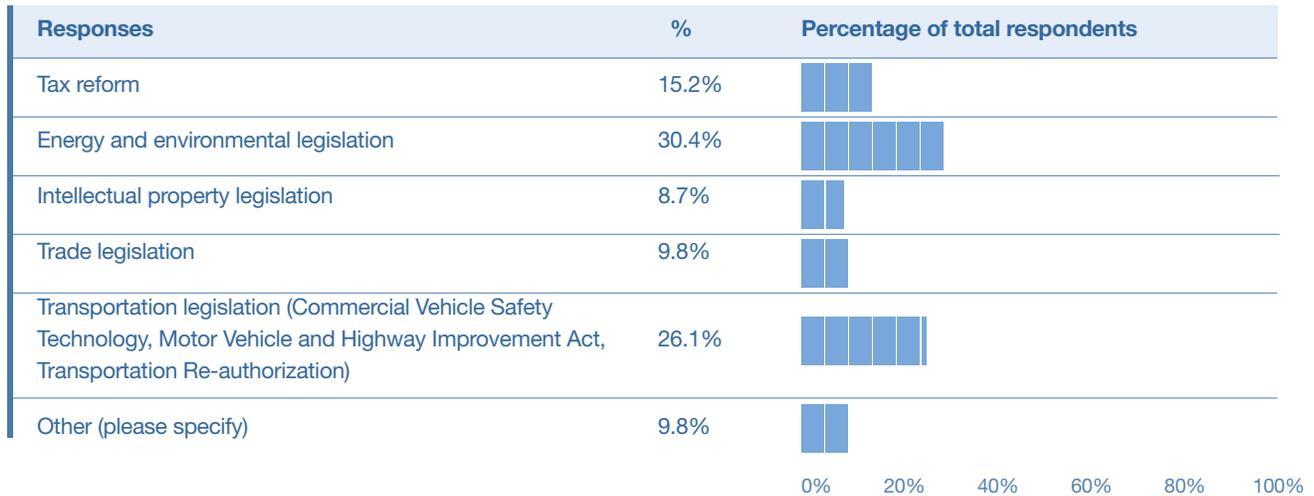
- 57 respondents are also unsure whether the opening of a USPTO office in Detroit will decrease the number of filings their companies move forward with in the Eastern District of Texas.

Q19. In light of the USPTO opening up in Detroit, are you likely to decrease filings in the Eastern District of Texas?



- 22 respondents do believe that the USPTO office opening in Detroit will decrease filings in the Eastern District of Texas.

Q20. Which of the following is the top legislative issue your company is preparing for at this time?



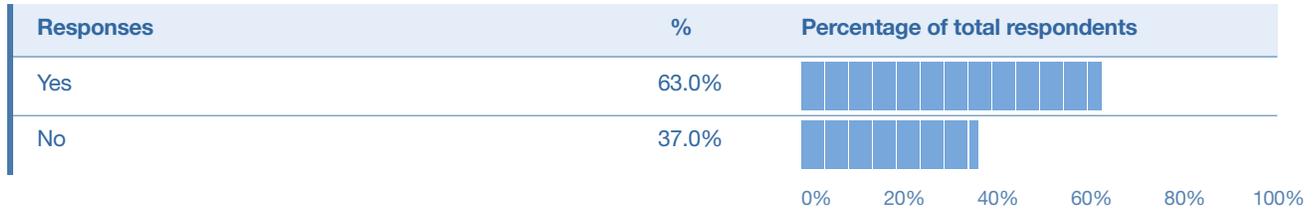
Congress, the White House, governors' offices, and legislatures across the country are all looking for ways to spur job growth in the still struggling economy. As the nation's largest manufacturing sector, the automotive industry will play a key role in this dialogue.

Survey respondents shared their feedback on the top legislative issues on their radar and the results were as following:

- The top legislative issue for 30 percent of automotive companies is Energy and Environmental legislation.
- 26 percent of respondents confirm the main issue is transportation legislation, followed by tax reform (15 percent).
- Transportation reform was likely high on respondent's radar when they moved forward with this survey in mid-July, as it was during this time President Obama signed a \$105 billion transportation bill, bringing an end to a three-year fight over road and transit spending.

- While tax reform was within the top three issues chosen, it is surprising participants didn't indicate it as their top priority, as after November it will likely be all consuming once the elections are over.
- Of the 10 percent of respondents who responded with "Other", Healthcare Reform was the top legislative issue mentioned.

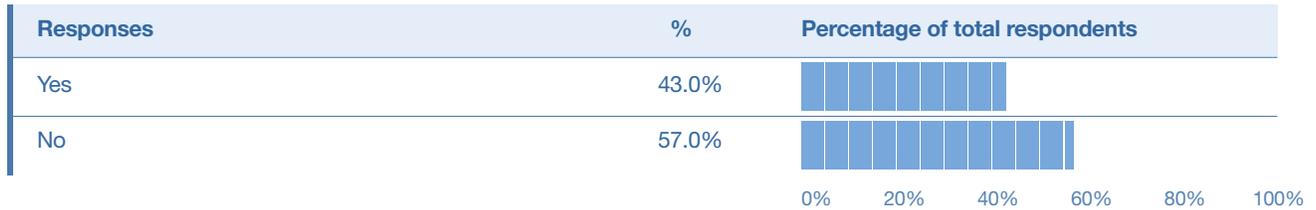
Q21. Do you have procedures or processes in place to comply with SEC requirements pursuant to the Dodd-Frank provisions on conflict minerals in the supply chain?



On August 22, the SEC voted to officially adopt conflict minerals regulations for Section 1502 of the Dodd-Frank financial reform law.

- 63 percent of automotive companies confirm that they are prepared for the SEC's Dodd-Frank provisions on conflict minerals in the supply chain.
- 37 percent of automotive companies are not prepared and do not have a plan in place.

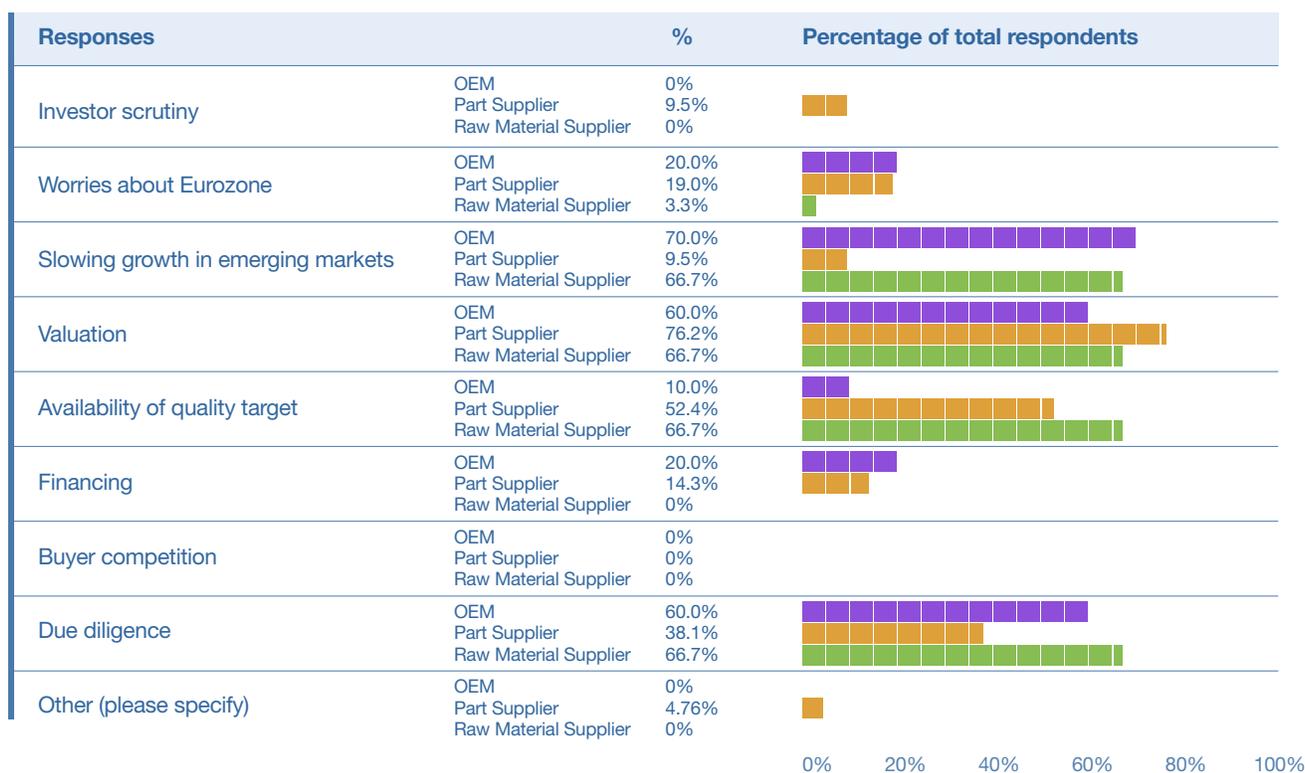
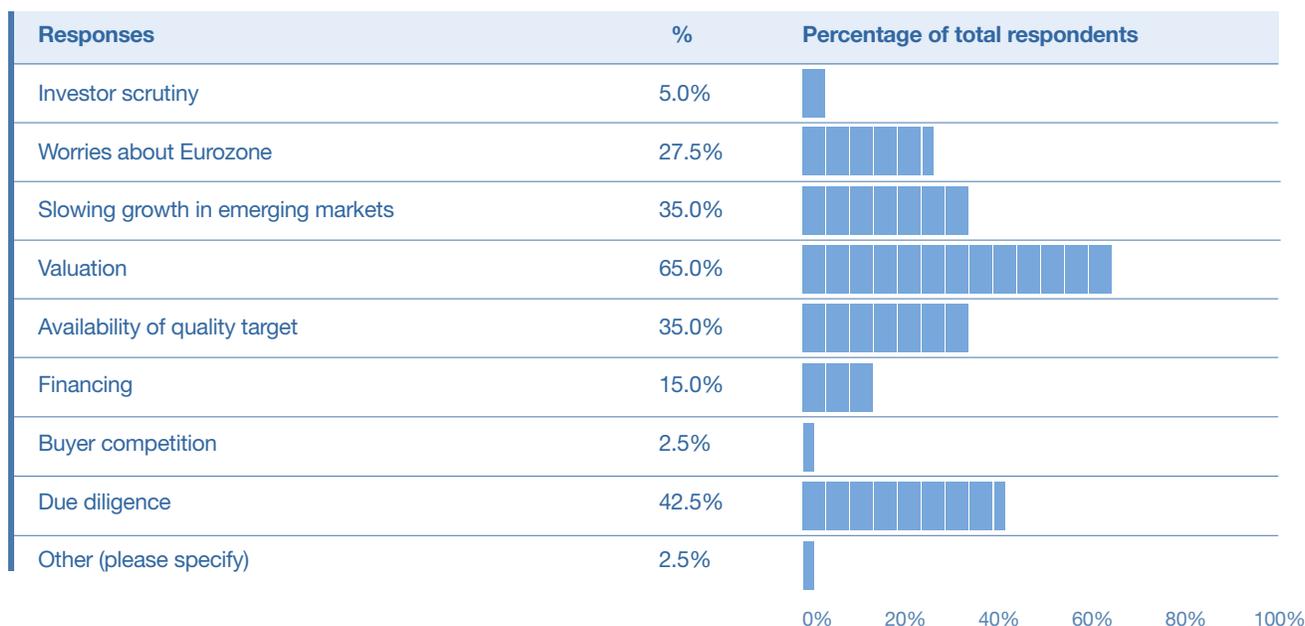
Q22. Over the past 12 months, did your organization make a decision to not move forward with an acquisition?



The first quarter of 2012 had the least amount of M&A activity of any quarter in seven years, and year-to-date worldwide M&A activity is down roughly 32 percent.

- In line with this data, 43 percent of respondents say their companies did not move forward with an acquisition in the past year.

Q23. Please confirm if any of the following events led to your organization not moving forward with an acquisition in the last year. Check all that apply.

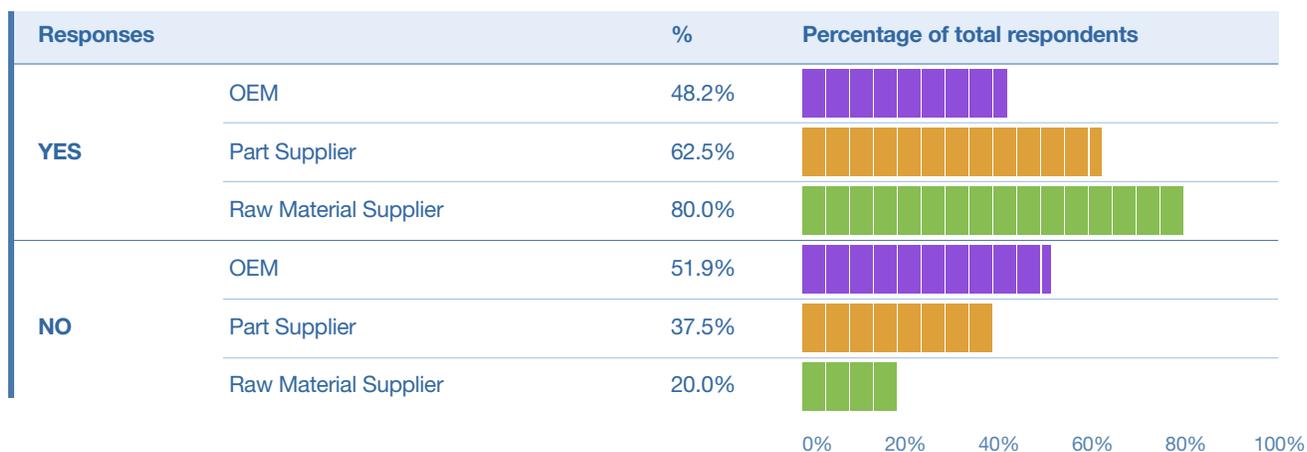
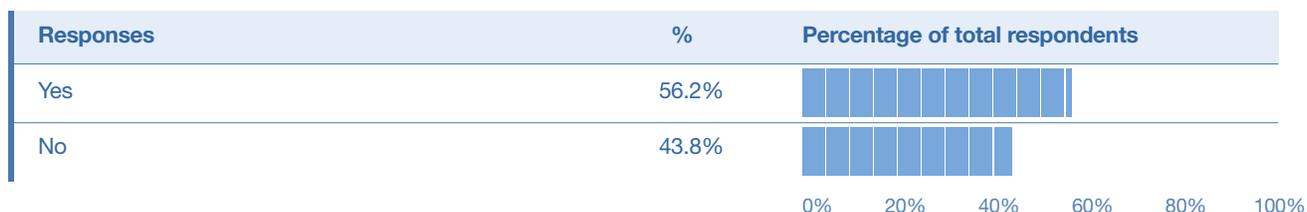


The worst European economy in decades, sinking sales of cars and trucks globally, and rising sales of cars and trucks in the U.S. have been noted to have an impact on the rate of mergers and acquisitions in the global automotive industry. Survey respondents, however, shared other views on what held automotive back from moving forward with M&A deals in the last year.

- Valuations were top on the list of respondents (65 percent), particularly for parts suppliers.
- Also high on the list: due diligence (42 percent), as well as international fears - including slowing growth in emerging markets (35 percent) and worries about the Eurozone (27.5 percent).

Note: This question was only made available to those respondents who stated they did not move forward with an M&A deal in the last 12 months.

Q24. Does your organization have plans to move forward with an acquisition in the year ahead?



- Despite that 43 percent of respondents confirm their companies did not move forward with an acquisition in the past year, 56 percent of respondents seem prepared to do more M&A in the coming year, saying they plan to move forward with an acquisition.
- Circling back to the majority of respondents (39 percent) who believe that raw material costs will pose the greatest challenge to their company's supply chains in the coming year, 80 percent of raw materials suppliers are planning an acquisition in the year ahead.

Methodology

In July 2012, national law firm Dykema distributed its Dykema Automotive Industry Survey via e-mail to a group of senior executives and advisors in the automotive industry including CEOs, CFOs and other company officers.

Of the 100 respondents:

- 54 percent identified themselves as CEOs, Directors, Presidents, Managers, CFOs or VPs, 24 percent identified themselves as in-house counsel, 22 percent identified themselves as consultants.
- 74 percent of respondents have more than 1000 employees in their company.
- Types of companies represented include OEMs (29 percent), Part Suppliers (45 percent), Raw Material Suppliers (5 percent) and Service Providers (20 percent).
- Due to rounding, all percentages used in all questions may not add up to 100 percent.



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Our litigators are widely known as fierce and successful advocates. They are the "go to" trial lawyers for businesses and have successfully handled virtually every type of civil dispute. Our transactional lawyers are equally as well known for their tenacity, practicality and excellence in achieving client goals. Simply put, Dykema delivers.

Exceptional Value

Our vast experience, sophisticated level of practice and industry-leading technology synergize to provide Dykema the ability to give our clients the fullest range of services at exceptional value without jeopardizing quality or effectiveness. Our professionals, in turn, turn that ability into reality, delivering extraordinary value to every client in every engagement.

Dykema is committed to delivering clients the best in service, results and value, and that is what Dykema delivers: our best, today, tomorrow and every day. That is the Dykema difference.