Issue 3 | May 2011
Outlook April – October 2011

Capital Confidence Barometer
Automotive industry

Fit for the future?

Our fourth *Capital Confidence Barometer* reports a surge in confidence in the global economic outlook. Confidence in the global economy has almost doubled in the last six months. Leading companies are now focusing on growth instead of defensive measures.

Capital market conditions remain strong and confidence in many local economies and industries also remains high. However, more recent external factors such as political instability in the Middle East, rising inflation and natural disasters are creating long-term uncertainty. This is leading to mixed messages for M&A.

Despite improving economic conditions and capital markets, the appetite for M&A has continued to decline – albeit from a relatively robust level – as respondents identified organic growth as their number one priority. Competition for assets and the valuation gap between buyers and sellers could also constrain near-term M&A appetite. Over time, however, we expect a return to increased levels of M&A activity as suppliers expand globally and seek out new technologies for competitive differentiation.

Our latest findings again underline one critical point: how companies manage their capital agenda today will define their competitive position tomorrow. How they raise, invest, optimize and preserve their capital is vital to their future success. The Barometer clearly shows that many leading companies are positioned to thrive in the current automotive marketplace, while others are struggling to respond to current market challenges.

Jim Carter – **Americas Automotive Industry Leader**, Transaction Advisory Services

About this survey

Ernst & Young's Capital Confidence Barometer is a regular survey of senior executives from large companies around the world conducted by the Economist Intelligence Unit (EIU).

Our panel, the "Ernst & Young 1,000," comprises select Ernst & Young clients and contacts and regular EIU contributors.

This automotive subset of our findings gauges corporate confidence in the economic outlook and identifies boardroom trends and practices in the way companies manage their capital agenda.

Profile of automotive respondents

- **Panel of 72 automotive executives surveyed in April 2011**
- **Companies from 19 countries including Australia, Brazil, China, France, Germany, India, Japan, Russia, UK and the US**
- **Company revenues ranged from US$100 million to over US$20 billion**

The Capital Agenda

1. Preserving capital: reshaping the operational and capital base
2. Optimizing capital: driving cash and working capital and managing the portfolio of assets
3. Raising capital: assessing future capital requirements and assessing funding sources
4. Investing capital: strengthening investment appraisal and transaction execution

Survey highlights

Automotive respondents indicated that:

- 81% feel the financial crisis has ended or will be over in less than one year in the automotive industry
- 79% have now completed their refinancing or have no need to refinance
- 23% are expecting to execute an acquisition over the next six months
- 15% are expecting to execute a divestment over the next six months
- 57% thought that competition for assets was one of the top obstacles to completing a transaction
- 44% are likely to undertake or seriously consider an emerging market acquisition in the next twelve months
- 60% indicated that organic growth will be their organization's focus over the next six months

Ernst & Young
Quality In Everything We Do

Our perspectives

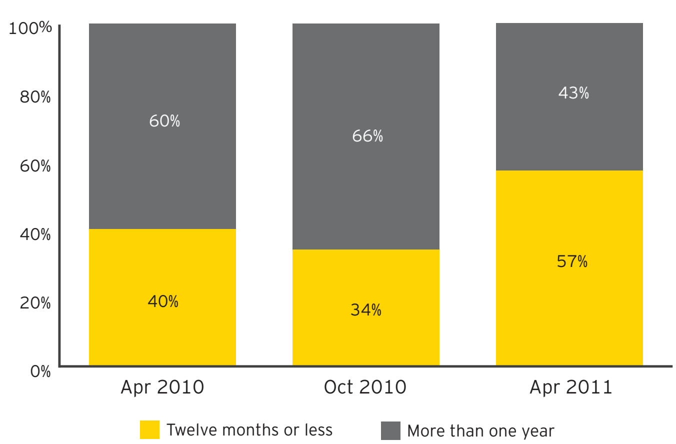
- Global confidence is returning. However, any sustained upturn is likely to be threatened by external factors: rising inflation, continued political instability in the Middle East and the impact of the Japanese earthquake on supply chains.
- Leading companies have completed their refinancing, but for those who haven't the need is now urgent.
- The survey shows that boardrooms are cautiously focusing on growth in light of the above factors.
- There are mixed implications for M&A. Respondents are focused on growth and have access to capital, however, most expressed declining expectations about completing M&A transactions. Targets are likely to be emerging market companies.
- Longer term, if the external factors stabilize or diminish, we may see a resurgence in M&A.
- In the current market, the highest priority in the boardroom remains organic growth.

Economic outlook

Boardrooms are bullish on recovery.

Across all industries confidence in the global recovery has surged since October 2010. Buoyed by high equity values, stabilizing capital markets and low interest rates, we are now seeing the first significant increase in confidence from respondents in 18 months. Almost 60% of executives now think that the global economy will have recovered by April 2012. Nearly a fifth (17%) believe that the financial crisis is already over.

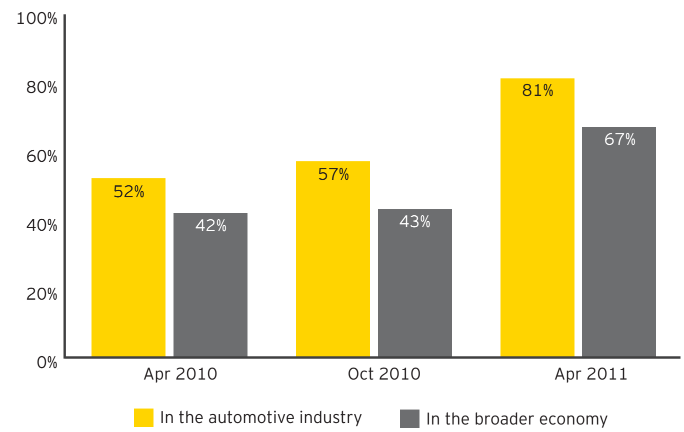
How long does your organization expect the financial crisis to persist in the broader economy?



17% For the first time we asked, "Does your organization believe the global financial crisis is over?" 17% said "Yes."

Automotive respondents have an even better outlook on near-term prospects for their industry than they do for the broader economy with 81% indicating they believe the financial crisis will be over in less than one year in the automotive industry and over a third (36%) indicating that they believe it is already over.

Do you feel the financial crisis has ended or will be over in less than one year?



Automotive respondents also remain upbeat about their local markets. Almost three-fourths (73%) are optimistic about their local economy as of April 2011 compared with 70% at October 2010. Optimism in the United States and Western Europe has increased the most dramatically. US respondents who were more optimistic about their economy than six months ago increased from 46% in October 2010 to 61% in April 2011. In Western Europe this increase was from 70% to 83%.

Optimism about respondents' individual company outlook is extremely high with only 1% of respondents less optimistic about the prospects for their company than they were six months ago.

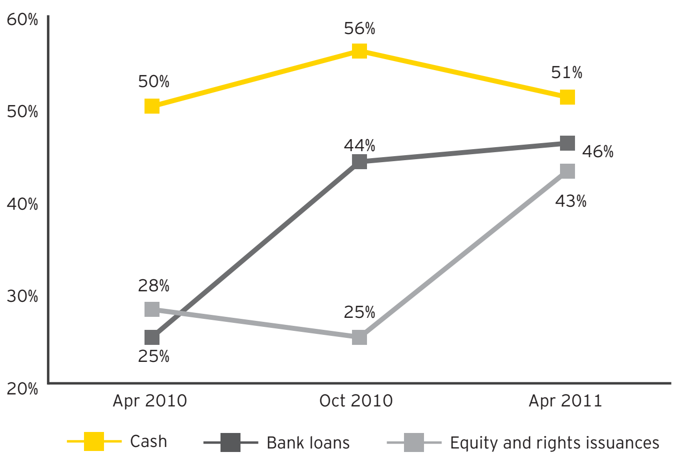
Capital markets

Capital market conditions continue to strengthen.

Almost 63% of respondents say capital market conditions are continuing to improve. Forty-three percent say access to funding for capital projects is not a problem for their company. Balance sheet leverage remains low: only 14% of respondents in the survey represent a company that has a debt-to-capital ratio above 50%; the majority are below 25%.

Based on recent activity levels, it appears financing for deals is increasingly available. Bank loans remain one of the primary sources of deal financing, along with company cash. However, equity and rights issuances have increased as a source of financing, with 43% of respondents citing this as a source of financing over the past twelve months as of April 2011, compared to 25% in October 2010. This has been witnessed with numerous notable equity issuances and IPOs in the automotive sector in late 2010 and 2011. Additionally, respondents confirmed the same three primary sources of financing are likely to be relied upon over the next twelve months.

What has been your main source of deal financing over the past twelve months?



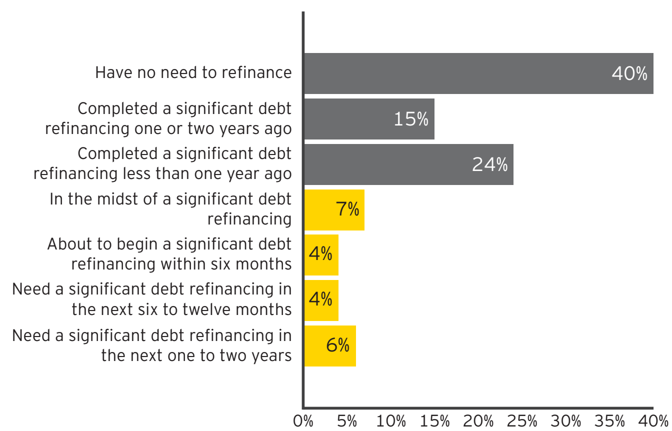
The pressure to refinance is over for leading companies.

Over the last six months the percentage of respondents whose company needs to refinance has dropped considerably. Over three-fourths (79%) of respondents surveyed say their company has either completed their refinancing or has no need to refinance, compared to 51% in October 2010. For those remaining respondents that need to refinance, the speed with which they need to execute is increasing. Seventy-three percent need to refinance within one year, an increase from 69% at October 2010.

Respondents noted that the biggest obstacles to refinancing currently were unattractive terms and conditions and a lack of viable alternatives to bank debt. However, as previously mentioned, equity financing is becoming increasingly available, but only to a small subset of publicly listed companies.

79% 79% of respondents in the survey have now completed or have no need to refinance.

Which of the following most accurately describes your company's debt/refinancing situation?



Strategic alternatives outlook

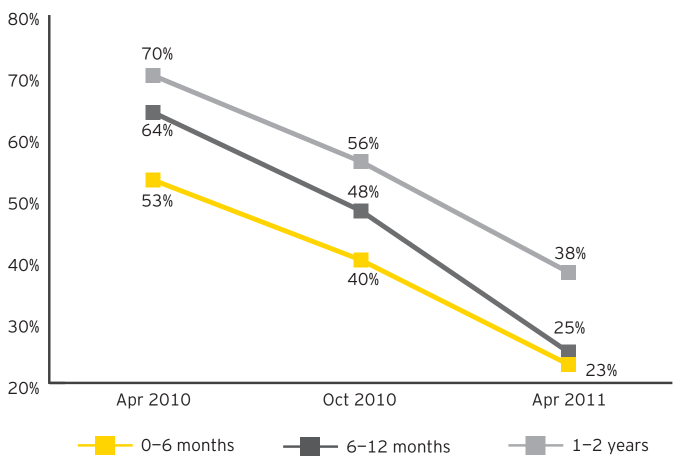
Messages for M&A are mixed.

The surge in global confidence is encouraging businesses to focus on growth rather than defensive measures.

However, the appetite for acquisitions is declining, and overall, respondents are focused on organic growth. This caution is driven by three dominant external factors that have arisen in the past six months: political instability in the Middle East, natural disasters and their impact on supply chains and tax and inflationary concerns. Based on our recent discussions with industry participants, it also reflects the recent increase in price expectations of sellers.

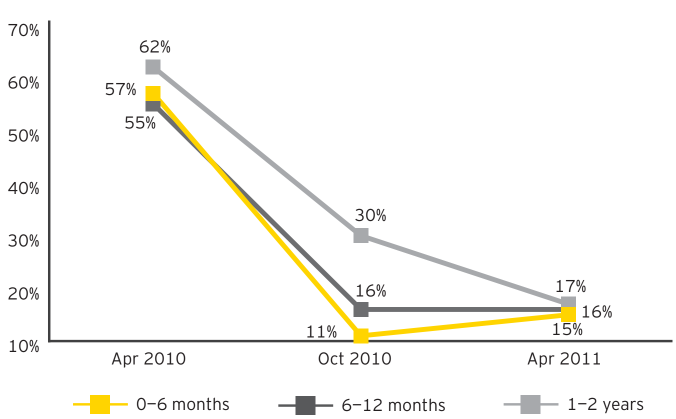
Only 38% of respondents are likely to execute an acquisition in the next two years, down from 70% at October 2010. The same trends hold true for one-year and six-month time periods.

How likely are you to execute acquisitions in the following periods?



Divestment activity is expected to rise in the short-term, but only for about 15% of respondents. Over the longer term, the percentage likely to divest over the next one to two years falls from 62% a year ago to 17% currently.

How likely are you to execute divestments in the following time periods?



Potential barriers to M&A exist.

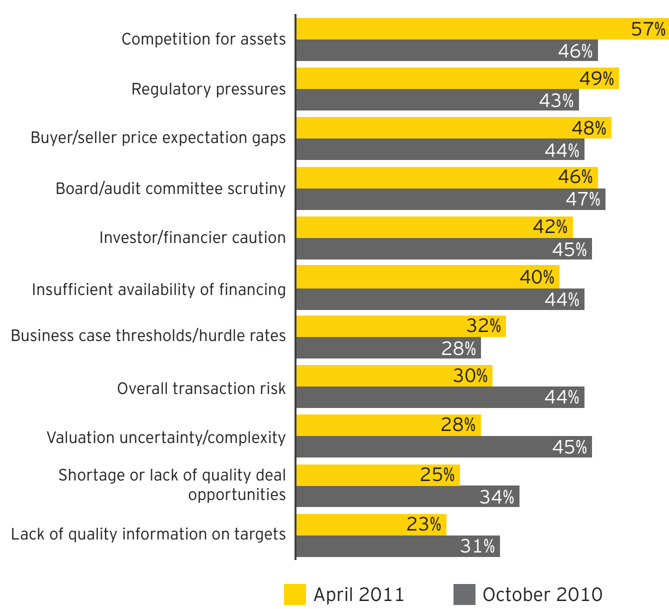
The number one barrier to M&A is now the competition for assets. Fifty-seven percent of respondents indicated that this was an obstacle to completing a transaction, up from 46% at October 2010. More companies in the industry have greater means to complete a transaction through capital markets or cash on their balance sheet, creating strong competition for remaining assets.

Regulatory pressure, buyer/seller expectation gaps and board/audit committee scrutiny also exist as obstacles to completing a transaction.

In emerging markets, regulatory pressures remain the highest obstacle to future transactions (64% in April 2011). Insufficient availability of financing is being increasingly seen as an issue in these markets as well (52% in April 2011 vs 34% in October 2010).

Valuation uncertainty and complexity, and overall transaction risk have declined as an obstacle to M&A, which is consistent with industry transactions moving from primarily stressed and distressed transactions to healthy transactions.

Which of the following potential obstacles to future transactions do you believe have increased in the current business environment?



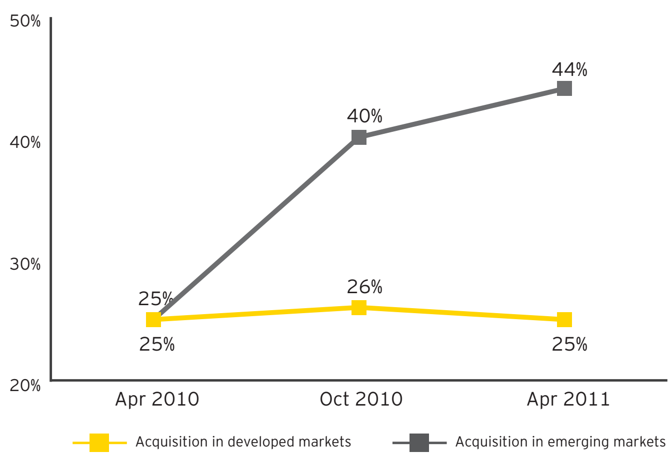
Additionally, almost one third of respondents (32%) noted that availability of financing had improved and they were less concerned with this as an obstacle to transactions in the current business environment. Only 17% noted this at October 2010. This is consistent with the deal financing and capital markets trends discussed earlier.

Emerging markets continue to drive growth.

Enthusiasm for globalization and emerging market investment remains strong as companies look for ways of fueling growth.

The percentage of respondents saying they are considering an emerging market acquisition within twelve months increased from 25% a year ago to 44% in April 2011. By contrast, similar interest in developed markets has not changed.

Respondents likely to undertake or seriously consider an emerging or developed market acquisition in the next twelve months.

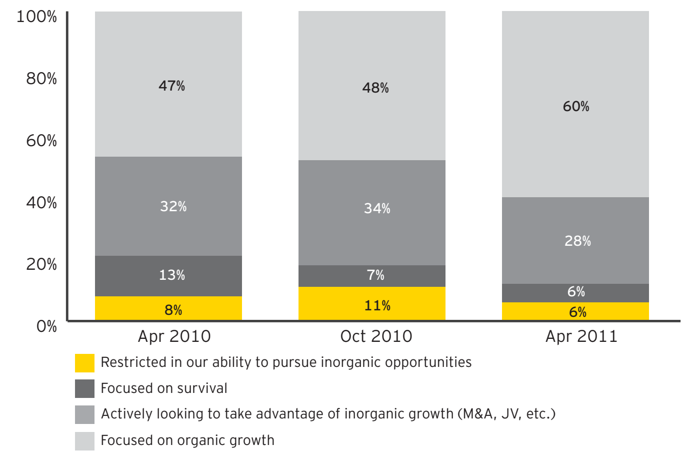


Additionally, respondents are more likely to undertake a JV/alliance as opposed to a full merger over the next year (35% vs 10%, respectively). This is not surprising given the significant risks associated with an emerging market investment, not the least of which are in the areas of business culture and domestic protectionism. Moreover, many organizations will be experiencing these risks for the first time.

The highest priority remains organic growth.

Sixty percent of respondents are now focused mainly on organic growth, an increase from 48% at October 2010. By contrast, only 28% of respondents say they are focused on M&A activity, a decrease from 34% at October 2010 and consistent with our previous discussions on M&A.

Which statement most accurately describes your organization's focus over the next six months?



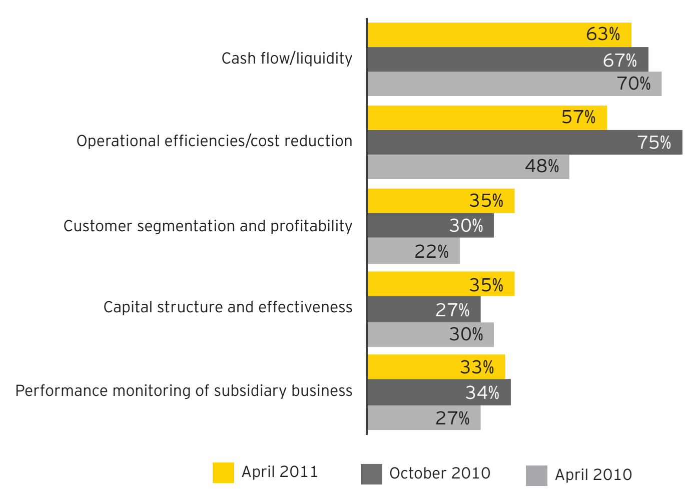
Liquidity and cost reduction remains important; focus grows on building sustainable improvements.

In the aftermath of the financial crisis, leading companies took immediate protective steps to preserve cash and reduce costs. While respondents have a continuing focus on cash, they are also now focusing on improving long-term business performance.

Sixty-three percent of respondents expect to give cash flow and liquidity the most attention over the next six months. Cost reduction and operational efficiencies ranks second (57%).

Additionally, companies are now moving on to the tougher challenge of building sustainable improvements into their business operations. Areas where respondents plan to invest greater effort include customer segmentation (35%), optimizing their capital structures (35%) and performance management of subsidiaries (33%).

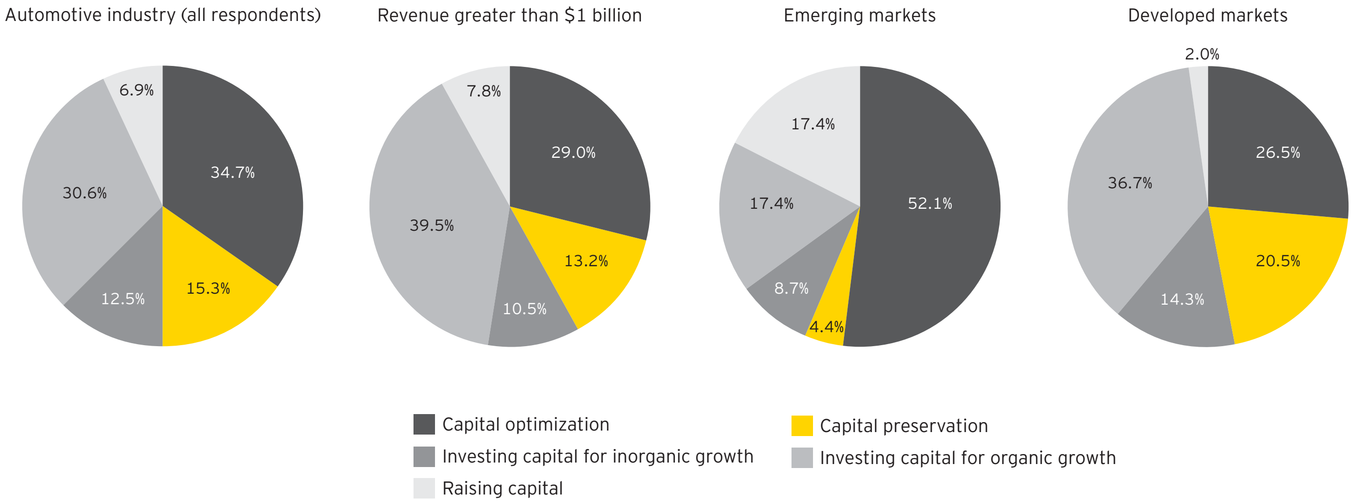
Which of the following aspects of your business do you expect will receive increased attention over the next twelve months as a result of the economic situation? (Top five)



Understanding your Capital Agenda

A strong Capital Agenda needs to be at the heart of all strategic boardroom and management decisions. The findings of our Capital Confidence Barometer provide useful insights into the ways companies are optimizing, investing, preserving and raising capital.

For the first time we asked survey participants on which capital management issue is their company placing the most attention and resources.



Capital management priorities clearly differ based on region and size. Respondents in emerging markets consider capital optimization as their top priority, with raising capital and investing for organic growth tied for second place. However, respondents in developed markets and those with over $1 billion in revenue consider investing in organic growth as deserving the most attention and resources.

The global economic outlook is improving. Capital markets activity is improving. Individual business outlook is also improving for companies that have completed refinancing and started the work of optimizing their operations. But for those left behind, the opportunity to catch up could be disappearing fast. This polarization is clear.

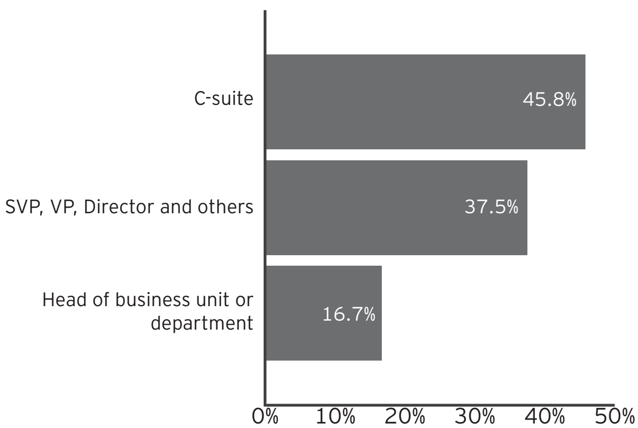
While the majority of respondents have refinanced their debt and set a strategic course, about 6% of respondents remain focused on survival. Such companies will increasingly find themselves with their options reduced. For some, their business model has been permanently impaired.

Additionally, while M&A does not appear to be the highest priority for most respondents, we have observed more transactions in the market and improved valuations for strategically positioned suppliers. We continue to see a valuation gap between buyers and sellers based on concerns over the long-term sustainability of current earnings and operating cash flow.

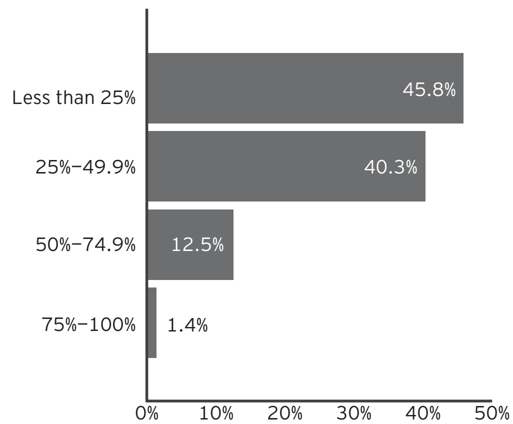
These findings underline one critical point: how companies manage their capital agenda today will define their competitive position tomorrow. How they raise, invest, optimize and preserve their capital is vital to their future success.

Survey demographics

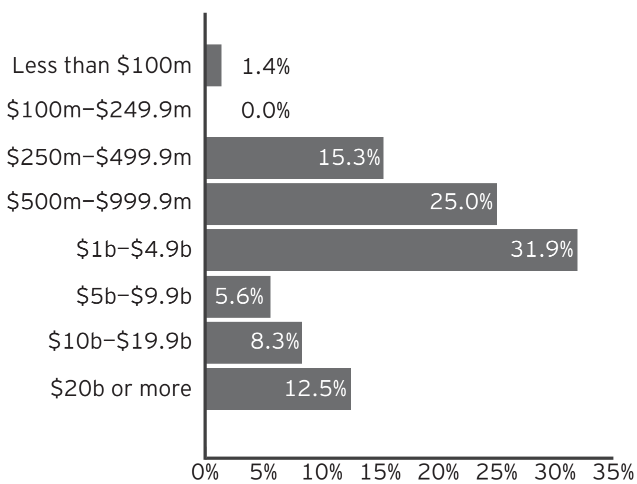
What is your position in your organization?



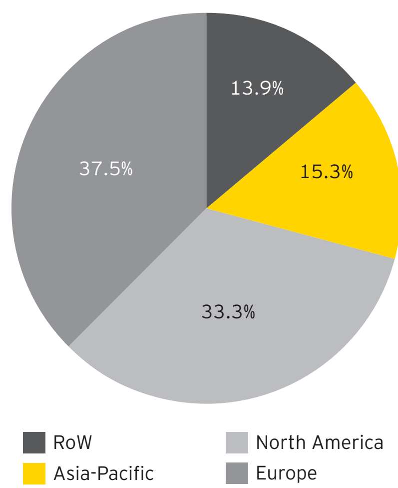
What is your current debt-to-capital ratio?



What are your company's annual global revenues in US dollars?



In what region are you located?



Note: This survey was opened on 15 February 2011 and closed on 21 March 2011; therefore, the full effects of the 11 March Japan earthquake may not be reflected in the survey results.

Contacts

If you would like to discuss your company's capital agenda, please contact your existing Ernst & Young advisor or any of the contacts listed below.

Name	Telephone number	Email
Americas		
Jim Carter Americas Automotive Industry Leader Transaction Advisory Services	**+1 313 628 8690**	**jim.carter@ey.com**
Mark Short Americas Automotive Transaction Support Leader Transaction Advisory Services	**+1 313 628 8760**	**mark.short@ey.com**
Europe, Middle East, India and Africa (EMEIA)		
John Auldridge Global and EMEIA Automotive Industry Leader Transaction Advisory Services	**+49 6196 996 26848**	**john.auldridge@de.ey.com**
Far East and Oceania		
Tony Tsang Far East and Oceania Automotive Industry Leader Transaction Advisory Services	**+86 21 2228 2358**	**tony.tsang@cn.ey.com**
Japan		
Todd Kropp Japan Automotive Industry Leader Transaction Advisory Services	**+81 3 5401 7100**	**todd.kropp@jp.ey.com**

Additionally, please feel free to contact Ernst & Young's Global Automotive Center through the contacts listed below.

Name	Telephone number	Email
Mike Hanley Global Automotive Leader	**+1 313 628 8260**	**michael.hanley02@ey.com**
Jeff Henning Global Markets Leader – Automotive	**+1 313 628 8270**	**jeff.henning@ey.com**

Acknowledgements

Our special thanks go to the Ernst & Young 1,000* for their contribution to this survey.

* The Ernst & Young 1,000 comprises an EIU panel of senior executives and selected Ernst & Young clients and contacts who participate in the *Capital Confidence Barometer* on a biannual basis. The surveys are conducted on an independent basis by the EIU.

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com.

About Ernst & Young's Transaction Advisory Services
How organizations manage their capital agenda today will define their competitive position tomorrow. We work with our clients to help them make better and more informed decisions about how they strategically manage capital and transactions in a changing world. Whether you're preserving, optimizing, raising or investing capital, Ernst & Young's Transaction Advisory Services bring together a unique combination of skills, insight and experience to deliver tailored advice attuned to your needs – helping you drive competitive advantage and increased shareholder returns through improved decision making across all aspects of your capital agenda.

About the Global Automotive Center
Our Global Automotive Center with resources in Detroit, Stuttgart, Shanghai and Tokyo is focused on the megatrends in the global automotive industry. They bring together a team of professionals to help you achieve your potential – a team with deep technical experience in providing assurance, tax, transaction and advisory services. The Global Automotive Center works to anticipate market trends, identify the implications and develop points of view on relevant industry issues. Ultimately, the Center assists us in helping you meet your goals and compete more effectively. It's how Ernst & Young makes a difference.

Visit ey.com/automotive for more information.

EYG no. DE0240