KPMG LLP, the audit, tax, and advisory firm, surveyed more than 100 C-suite and other top-level executives in the U.S. auto industry during the second quarter of 2012.

Participants were asked about their sector’s business conditions, significant areas of revenue growth, employment outlook, and their priorities for investment. They also were asked to gauge factors that could support or impede progress, including supply chain challenges and government regulation.
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Foreword
I am pleased to present KPMG’s 2012 Automotive Industry Outlook Survey which provides the perspectives of more than 100 senior executives in the U.S. automotive industry.

The survey results clearly portray a U.S. automotive industry that is regaining confidence. Even though the overall U.S. economic recovery remains weak, that is not the case in automotive, where pent-up demand for vehicles in the United States is expected to carry over for years. As a result, auto companies and suppliers are ramping up their hiring and production activities, and investing heavily in new products and facility expansion.

The industry has significant cash on hand and companies are focusing on opportunities for investing in new products, innovation, productivity enhancements, and M&A.

Despite record profits, the industry is keeping its eye on costs. Auto executives say that improving manufacturing efficiencies and reducing overhead costs are among the major steps they are taking to improve profitability.

While auto executives express optimism about revenue, growth, and hiring, particularly in the United States, they face global economic headwinds—and they are not projecting an economic turnaround for years.

We are also hearing from U.S. automakers that although they are poised for growth, they are struggling in certain instances to find the right people with the right technical skill sets for open positions. This is becoming an increasing cause for concern; not just for auto companies, but for many organizations in the manufacturing sector. It remains to be seen how companies will fill the gap.

The turnaround of the U.S. automotive industry in such a short period of time has been nothing short of remarkable. It has had a positive impact on the U.S. economy, and the industry continues to invest and innovate.

Gary Silberg
National Sector Leader, Automotive
KPMG LLP
Key findings from KPMG’s Business Outlook Survey
KPMG’s survey reflects the responses of more than 100 senior executives in the U.S. auto industry—manufacturers and suppliers—from companies with more than $100 million in annual revenue. Twenty-nine percent of respondents worked for companies whose annual revenues exceed $10 billion, 25 percent represented companies with annual revenues between $1 billion and $10 billion, and 46 percent had revenues in the $100 million to $1 billion range. Fifty-five percent of these companies are publicly held, and 45 percent are privately held.

Key findings from the auto industry sector included the following:

- The majority of respondents expect revenue, hiring, and the economy to improve in the coming year. More than three-quarters (76 percent) of auto executives say their companies’ revenue has increased over the past year, and 83 percent believe revenue will continue to rise next year.

- Sixty-six percent of sector executives say their companies have added employees since last year, and nearly three-quarters (72 percent) believe they will add more over the next year.

- The number of executives who cite the lack of a qualified workforce as one of the most significant barriers to growth nearly doubled—from 10 percent in 2011 to 19 percent in 2012.

- Fifty-nine percent of U.S. auto executives surveyed say their company’s ability to get financing or raise capital has improved since last year. Forty percent of companies with cash on their balance sheets acknowledge that investment is already significantly under way.

- More than half (57 percent) of the executives expect their companies to be involved in a merger or acquisition over the next two years, with 47 percent anticipating their role as buyer in the transaction.

- Key drivers of revenue growth during the next one-to-three years are predicted to be new models/products (53 percent), new geographic markets (42 percent), improved pricing strategies (35 percent), and acquisitions/joint ventures/strategic alliances (32 percent), according to survey respondents.

- Supply chain management is a growing concern for sector executives due to rising commodity costs (55 percent), capacity/availability of product (29 percent), insufficient quality levels (28 percent), and supply disruption (28 percent).

- Seventy-one percent of respondents predict the U.S. economy will improve next year.
Business conditions

Almost three-quarters (71 percent) of auto executives surveyed believe the U.S. economy will see improvements over the next year, while only 7 percent believe it will be worse than last year.

Expectations for U.S. economy in one year

Time line for U.S. economic recovery

Automotive executives surveyed anticipate the projected time line for an overall U.S. economic recovery is still a few years away. Most respondents (60 percent) do not expect the economic recovery to fully occur until 2014 or later.

Expectations for full economic recovery
Revenue and profitability

More than three-quarters (76 percent) of executives indicate their companies have experienced an increase in revenue during the past year. An even greater number of respondents (83 percent) believe their companies will continue to see revenue climb over the next year.

Even though the overall economic recovery remains weak, that is not the case in automotive, where pent-up demand for vehicles in the United States is expected to carry over for years.

Gary Silberg, KPMG LLP
Revenue and profitability (continued)

Sector executives cite new models/products, expansion into new geographic markets and improved pricing strategies as the three top drivers of revenue growth over the next one-to-three years.

Biggest drivers of company’s revenue growth in the next 1–3 years

Moreover, improving manufacturing efficiencies, new geographic expansion, and reducing overhead costs are expected to have the greatest impact on growing profits over the next three years, according to survey respondents.

Greatest impact on improving profitability in the next 1–3 years
Headcount

The employment picture for the automotive industry continues to improve, and executives predict that trend will continue. Two-thirds (66 percent) of the auto executives surveyed say they have added employees since last year, and 72 percent expect to continue adding personnel over the next year.

Headcount versus last year

Notably, while 32 percent of auto executives say their headcount will be at or above the pre-recession level by the end of this year, 16 percent believe their U.S. headcount will never return to pre-recession levels.

Headcount return to pre-recession levels
Gearing up for growth

North America continues to be a primary growth area for companies, according to 63 percent of survey respondents, followed by China (44 percent) and South America (30 percent).

**Top 3 regions/countries for growth**

<table>
<thead>
<tr>
<th>Region/Country</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>63%</td>
</tr>
<tr>
<td>China</td>
<td>44%</td>
</tr>
<tr>
<td>South America</td>
<td>30%</td>
</tr>
</tbody>
</table>

Growth roadblocks

In their quest for growth, sector executives cite pricing pressures, energy prices, the lack of customer demand, and lack of a qualified workforce as the most significant barriers over the next year. Significantly, the number of respondents who consider the lack of a qualified workforce to be a barrier to growth almost doubled since 2011.

**Barriers to growth in the coming year**

<table>
<thead>
<tr>
<th>Barrier</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pricing pressures</td>
<td>29%</td>
<td>36%</td>
</tr>
<tr>
<td>Energy prices</td>
<td>26%</td>
<td>28%</td>
</tr>
<tr>
<td>Lack of customer demand</td>
<td>20%</td>
<td>16%</td>
</tr>
<tr>
<td>U.S. dollar strength</td>
<td>18%</td>
<td>11%</td>
</tr>
<tr>
<td>Volatile commodity/input prices</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>Increased taxation</td>
<td>11%</td>
<td>16%</td>
</tr>
<tr>
<td>Regulatory and legislative pressures</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Access to and managing capital</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>Leveraging emerging technologies</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Foreign competition</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Exchange rate fluctuations</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Labor costs</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Risk management issues</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Inflation</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Key

- North America
- South America
- Western Europe
- Eastern Europe
- Middle East
- China
- Asia (other than China)
- India
- Russia

Multiple responses allowed.
Capital spending and investing

News reports continue to call attention to companies having a great deal of cash on their balance sheets but lacking the confidence to invest. Fifty-nine percent of U.S. auto executives surveyed say their company’s ability to get financing or raise capital has improved since last year.

Moreover, of those companies with cash on their balance sheets, 40 percent acknowledge that investment is already significantly under way.

Investment time frame

Moreover, of those companies with cash on their balance sheets, 40 percent acknowledge that investment is already significantly under way.

Investment time frame

<table>
<thead>
<tr>
<th>Key</th>
<th>Third quarter 2012</th>
<th>Fourth quarter 2012</th>
<th>First quarter 2013</th>
<th>Second quarter 2013</th>
<th>2014 and beyond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment is significantly under way</td>
<td>40%</td>
<td>32%</td>
<td>13%</td>
<td>12%</td>
<td>9%</td>
</tr>
<tr>
<td>Second half 2013</td>
<td></td>
<td></td>
<td>7%</td>
<td></td>
<td>4%</td>
</tr>
<tr>
<td>2014 and beyond</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15%</td>
</tr>
</tbody>
</table>

Key

- Stayed the same
- Improved slightly
- Deteriorated significantly
- Improved significantly
- Deteriorated significantly

Company’s ability to get financing or raise capital over the past year

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deteriorated significantly</td>
<td>32%</td>
<td>30%</td>
<td>29%</td>
<td>6%</td>
</tr>
<tr>
<td>Improved slightly</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
<td>3%</td>
</tr>
<tr>
<td>Stayed the same</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
<td>0%</td>
</tr>
<tr>
<td>Improved significantly</td>
<td>29%</td>
<td>29%</td>
<td>29%</td>
<td>0%</td>
</tr>
<tr>
<td>Deteriorated significantly</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>0%</td>
</tr>
</tbody>
</table>
Top initiatives for the next two years include process and IT improvements (28 percent), investment in organic growth (21 percent), and M&A and cost reduction initiatives at 13 percent.

For those looking to spend, executives expect most dollars to go to new products and services (52 percent), expanding facilities (39 percent), and acquisition of a business (30 percent). Respondents indicated a significantly increased interest in spending on new products/services and expanding facilities compared to last year.

Sector executives expect to increase their investments in new technology (64 percent), new models/products (58 percent) and expansion into new geographies (39 percent).

Areas of increased investment over the next two years

Multiple responses allowed.

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**Accelerating M&A activity**

With strategic acquisitions topping the list of auto executives’ investment priorities, a surge in M&A activity is likely to occur. Fifty-seven percent of sector executives believe their company will participate in a merger or acquisition, with the majority (47 percent) expecting to have the role of buyer in the transaction.

**Likelihood of M&A activity**

Access to new markets and customers is expected to be the top key driver of M&A activity.

**M&A key drivers**

<table>
<thead>
<tr>
<th>Key</th>
<th>Access to new markets and customers</th>
<th>Access to new technologies and products</th>
<th>Potential for product synergies</th>
<th>Labor cost pressures</th>
<th>Debt and risk of bankruptcy</th>
<th>Pension and healthcare cost pressures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Involved in M&amp;A as a buyer</td>
<td>47%</td>
<td>40%</td>
<td>40%</td>
<td>29%</td>
<td>24%</td>
<td>20%</td>
</tr>
<tr>
<td>Involved in M&amp;A as a seller</td>
<td>36%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No plans for M&amp;A activity</td>
<td>10%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not sure/don’t know</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Multiple responses allowed.

**Segments of M&A activity**

According to survey respondents, the greatest M&A activity within the sector is anticipated to occur mostly among Tier 1 and Tier 2 suppliers over the next year (53 percent).

**Expectations for M&A activity by company type**

<table>
<thead>
<tr>
<th>Key</th>
<th>Vehicle manufacturers</th>
<th>Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase</td>
<td>39%</td>
<td>53%</td>
</tr>
<tr>
<td>Remain the same</td>
<td>57%</td>
<td>40%</td>
</tr>
<tr>
<td>Decrease</td>
<td>4%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Multiple responses allowed.
Supply chain spotlight

According to the automotive executives surveyed, supply chain management faces significant challenges due to a variety of factors, including rising commodity costs (55 percent), available capacity (29 percent), insufficient quality levels (28 percent), and supply disruption (28 percent). Capacity and supply chain disruption issues have declined in importance since 2011, according to executives.

However, survey respondents indicate there are several significant opportunities for supply chain improvement. Twenty-nine percent of sector executives cite the greatest opportunity being the ability to improve communication and strengthen relationships with suppliers.

Greatest opportunities for supply chain improvement

- **Improve communication/supplier relationships**
- **Consolidating buy**
- **Accelerated innovation from suppliers**
- **Identification of new suppliers**
- **Revise sourcing location**
- **Increase diversification of supply base**
- **Increase transparency throughout the supply chain**
- **Increase outsourcing**
- **New materials**

*Multiple responses allowed.*
Regulations and risk management

Regulatory reform is sweeping across many industries, and the automotive industry is no exception. According to the automotive executives surveyed, fuel economy standards, emissions standards, and healthcare reform are three key areas of regulation that will likely have a great impact on their businesses during the next one-to-three years.

**Government regulations with most impact in the next 1-3 years**

- **Corporate Average Fuel Economy (CAFE) standards**
- **Emission standards**
- **Healthcare reform**
- **Country-specific auto regulations (e.g., Russia, China, etc.)**
- **New free trade agreements or other changes at the World Trade Organization**
- **Export control regulations**
- **Conflict materials (section 1502 of Dodd-Frank)**
- **Foreign Corrupt Practices Act (FCPA)**
- **Other**

*Multiple responses allowed.

**Value Added Tax**

The introduction of a Value Added Tax (VAT) in the United States has been raised as a way to resolve the budget deficit. Notably, more than two-thirds (68 percent) of executives say they think a VAT would negatively impact the auto industry.

**Impact of VAT on auto industry**

- **Negatively impact auto industry**
- **Favorably impact auto industry**
- **No impact to auto industry**

*Given that the automotive industry is one of the most heavily regulated, it’s critical for industry growth that the regulatory environment become consistent and predictable.*

**Betsy Meter, KPMG LLP**
Responding to the European slowdown

Forty-two percent of respondents think the European slowdown in vehicle sales will last a year and a half.

Length of slowdown in European vehicle sales

Almost half of respondents 49 percent say the impact of the European slowdown was only slight. Almost one-quarter of respondents think the impact was moderate.

Impact of European slowdown on company profits

For automotive companies with their large international footprints, VAT outside the United States already has a significant adverse cash flow impact. Any introduction of VAT in the United States should only be considered in conjunction with comprehensive reform and simplification of corporate tax law.

Hans Flick, KPMG LLP
Companies have taken steps to minimize the impact of the European slowdown, from operations restructuring (46 percent) to cost mitigation (43 percent) to capacity rationalization (40 percent).

**Steps taken to minimize the impact of the European slowdown**

![Bar chart showing the percentages of companies采取 each step.](chart)

**Key**
- European operations restructuring
- Capacity rationalization
- Cost mitigation
- Changes to distribution strategies/channeles
- Cutbacks outside Europe to compensate
- My company has taken no steps to minimize impact

Multiple responses allowed.
In an unprecedented story, the U.S. automotive industry has come roaring back, thanks to tough decisions during tough times. Now, both the industry and the U.S. economy are enjoying the rewards of those decisions. Companies are bullish and investing in innovation and new products. Armed with growing revenues and strong balance sheets, survey respondents say companies will boost domestic headcount, expand facilities, and invest in new products to keep up with growing demand.

Still, the optimism won’t last unless the global economy turns around and economic conditions improve in the United States. For the automotive industry—indeed, for manufacturing as a whole—one of the most serious of these conditions is a lack of skilled workers.

We challenge the automotive industry to work with educators to design and implement training programs at both vocational and higher education levels that will help prepare our domestic workforce for positions in the automotive industry.
As the U.S. automotive industry achieves increasing growth in revenue and hiring after emerging from years of restructuring, challenges to this important sector continue to arise. Companies must adjust and actively manage the many changes that impact performance.

Having the right professional services firm—one with the industry depth, knowledge and insight to help clients address their most pressing issues and achieve their goals—is critical.

For decades, KPMG’s Global Automotive practice has been recognized for its commitment to the industry. Through our international network of member firms, we have the global reach and experience to serve clients anywhere in the world. Our Automotive practice includes professionals with the knowledge, experience, and skills to help our clients address their challenges, sort through today’s complex business problems, and achieve their goals.
Key Contacts

Gary Silberg  
Partner, National Sector Leader, Automotive  
T: 312-665-1916  
E: gsilberg@kpmg.com

Hans Flick  
Partner, National Tax Leader, Automotive  
T: 313-230-3470  
E: haflick@kpmg.com

Betsy Meter  
Partner, National Audit Leader, Automotive  
T: 313-230-3410  
E: emeter@kpmg.com

Jeff Dobbs  
Global Head of Diversified Industrials  
T: 313-230-3460  
E: jdobbs@kpmg.com

Marty Phillips  
U.S. Management Consulting Leader for Diversified Industrials  
T: 678-525-8422  
E: mwphillips@kpmg.com

Kimberly Rodriguez  
Supply Chain Risk Advisory Services Principal  
T: 313-230-3176  
E: kdrodriguez@kpmg.com