

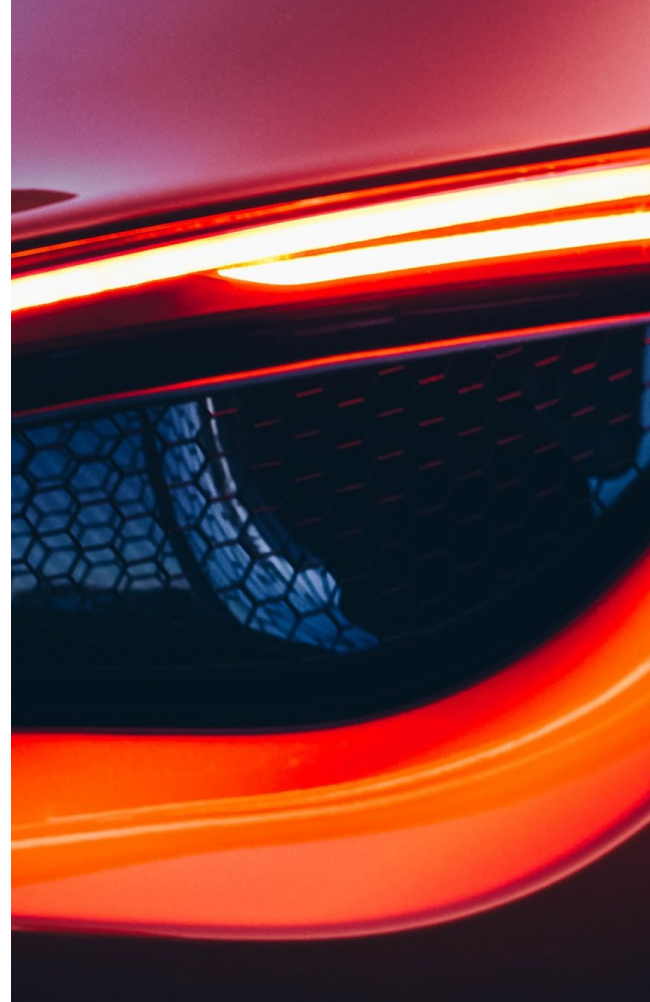
**memma.**  
Original Equipment Suppliers

**Deloitte.**

# MEMA OE Suppliers Automotive Supplier Barometer Q3 2024

Innovation and Capital Markets

August 29, 2024



# MEMA OE Supplier Barometer: Executive Summary

## Supplier Barometer Index (SBI)

SBI Score = 39;

down from Q2 level of 45



The outlook for the third quarter of 2024 continues to reflect industry pressures, for the tenth straight quarter of building pessimism on net. The outlook is pessimistic across firms of all sizes, with the largest, most globally exposed suppliers, having the most pessimistic outlook. Light and commercial vehicle suppliers are equally pessimistic about the coming 12 months.



Concerns of poor sales in programs supplied overtook weakness in the U.S. economy as the leading threat to the industry in the coming 12-months while the threat of both intensified from last quarter.

Supply chains and the ability to fulfill volumes continue to improve while the risk of higher interest rates continues to decline.



New orders and production have decreased widely across the industry on both a year-over-year and one-month basis. Customer inventories are building, and the backlog of orders is declining. Costs continue to rise.



Leaders are confident about their ability to access capital for all areas of use at appropriate costs. Suppliers are emphasizing their equity positions on their balance sheets and looking for debt reduction.

# MEMA OE Supplier Barometer: Executive Summary



Thirty-six percent of suppliers believe they are ahead of their peer groups' pace of innovation while eighteen percent feel they are behind.

Best practices of those who consider themselves as innovation leaders include investing in R&D, talent, automation, and developing new products.

Firms that are catching up with the pace of their peers are reviewing their R&D plans and acquiring talent.



Suppliers consider automation and robotics to be the largest opportunity when it comes to innovation; followed by advanced materials and processes, electrification and artificial intelligence.



Suppliers currently reflect limited integration of artificial intelligence in their businesses. IT, communications, engineering, and operations leverage minimal integration. While many suppliers are engaging with advanced use cases, some shared they are restricted from using AI in the workplace due to confidentiality concerns.



Suppliers see their capital needs accelerating for all capital requirements next year, particularly for M&A opportunities. Commercial loan rates, the cost/size of credit lines and the maximum size of loans are expected to ease in comparison to this year.

New program CAPEX is projected to grow 4.5% year over year this year, and 5.6% next year. Commercial vehicle suppliers require a bit more growth in comparison to their light vehicle counterparts.

Free cash flow funding rates are consistent with last year. Over the past two years, cash flow performance has minimally disrupted the industry's ability to support its capital requirements, albeit with a notable proportion indicating substantial disruption.



Leaders are confident about their ability to access capital for all areas of use at appropriate costs. Suppliers are emphasizing their equity positions on their balance sheets and looking for debt reduction.



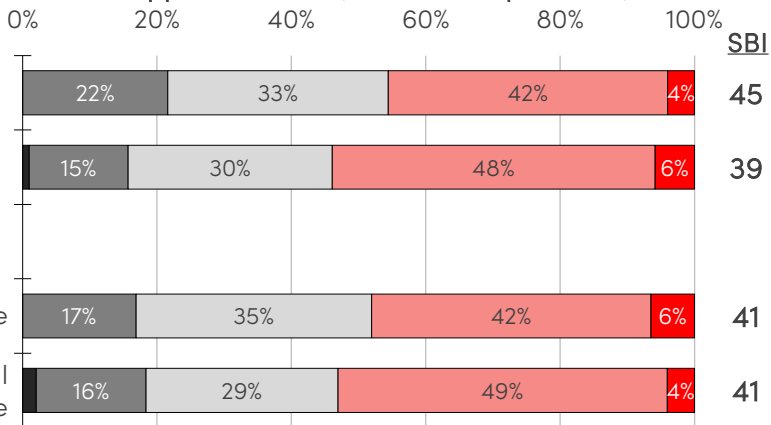
# Supplier Outlook

Q3 2024 Automotive Supplier Barometer

# MEMA OE Supplier Barometer: Q3 2024 Results

Describe the general twelve-month outlook for your business. Over the past three months, has your opinion become...?

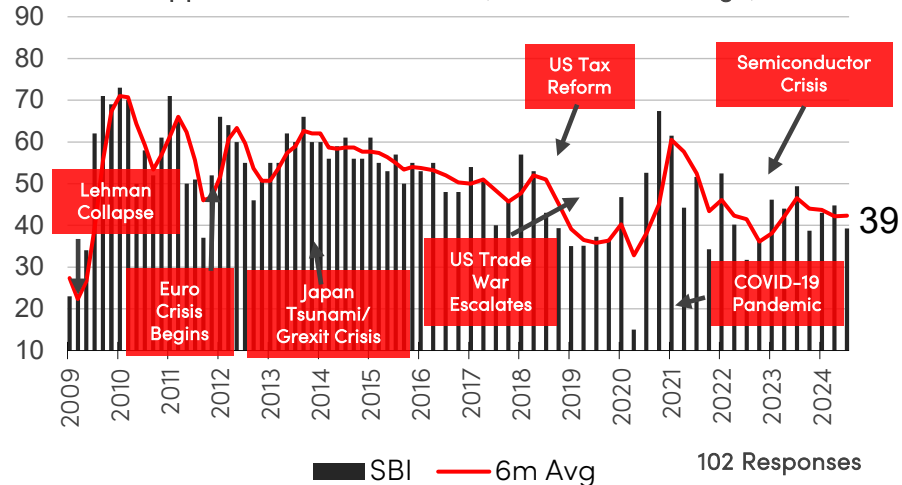
Current Supplier Outlook (Share of Respondents)



Note: Light and Commercial Vehicle SBI values are skewed higher by supplier responses with both Light and Commercial Vehicle business.

- Significantly more optimistic
- Somewhat more optimistic
- Unchanged
- Somewhat more pessimistic
- Significantly more pessimistic

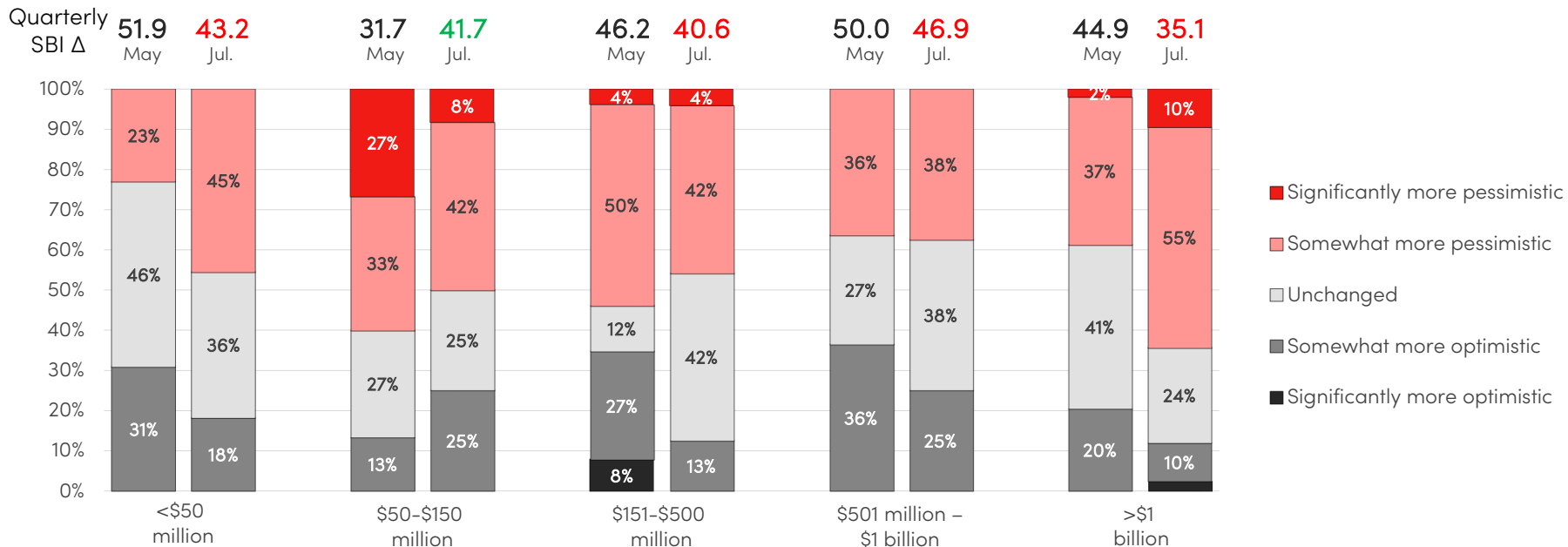
Supplier Barometer Index: (SBI and 6m Average)



The outlook for the second quarter deteriorated 6 points from the second quarter of 2024 to a level of 39, and marks ten consecutive quarters of building pessimism.

# MEMA OE Supplier Barometer: Q3 2024 Results by Revenue

Describe the general twelve-month outlook for your business. Over the past three months, has your opinion become...?

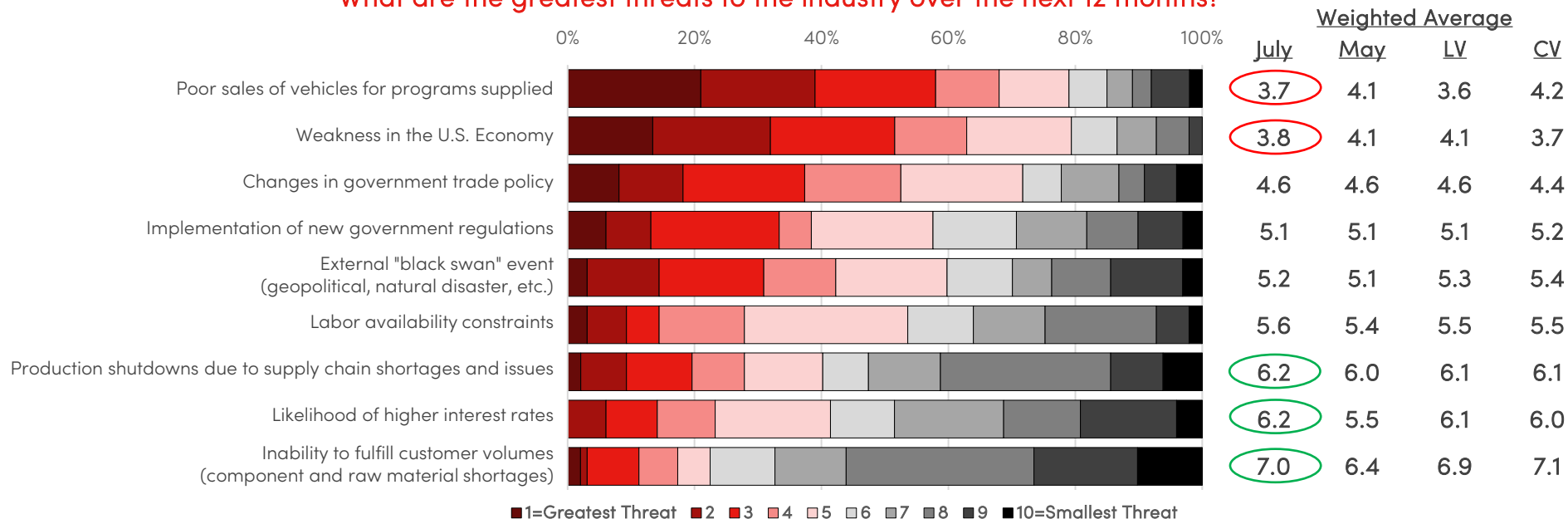


The outlook is pessimistic across firms of all sizes.

The largest, most globally exposed suppliers, having the most pessimistic outlook.

# MEMA OE Supplier Barometer: Industry Threats Results

What are the greatest threats to the industry over the next 12 months?



Poor sales of programs supplied, and economic weakness are the greatest 12-month threats to the industry. Supply chains and volume fulfillment improved, while the risk of higher interest rates continues to decline.

# MEMA OE Supplier Barometer: Industry Indicators

For the following indicators, please indicate what change, if any, your company has experienced over the following time frames.

	Total Industry		Light Vehicle		Commercial Vehicle	
	12-Month Chg.	1-Month Chg.	12-Month Chg.	1-Month Chg.	12-Month Chg.	1-Month Chg.
New orders	41	35	45	42	35	30
Production	33	25	33	26	33	28
Employment	45	39	49	42	45	39
Supplier Deliveries	50	46	51	46	51	49
Inventories	55	52	55	56	60	47
Customers' Inventories	67	65	69	68	60	61
Costs	81	72	81	74	80	69
Backlog of Orders	39	36	42	40	33	30
Imports	48	46	49	47	49	45
New Export Orders	45	46	45	46	48	49

Diffusion Index =  $\Sigma$  (% Responding Decelerated x 0, % Responding Unchanged x 50, % Responding Accelerated x 100)

Lower Limit = 0

Neutral = 50

Upper Limit = 100

New orders and production are decreasing widely on both a year-over-year and one-month basis. Customer inventories are building, and the backlog of orders is declining. Costs continue to rise.



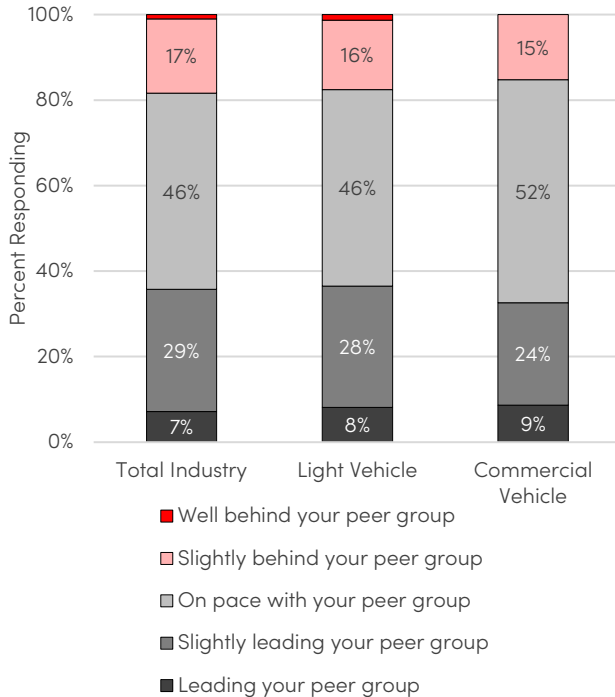


# Innovation

Q3 2024 Automotive Supplier Barometer

# MEMA OE Supplier Barometer: Innovation

Given the dynamic pace of industry change, describe your firm's pace of innovation.



What specific steps has your company taken to become an industry leader in innovation? (Leading or slightly ahead of peer group)

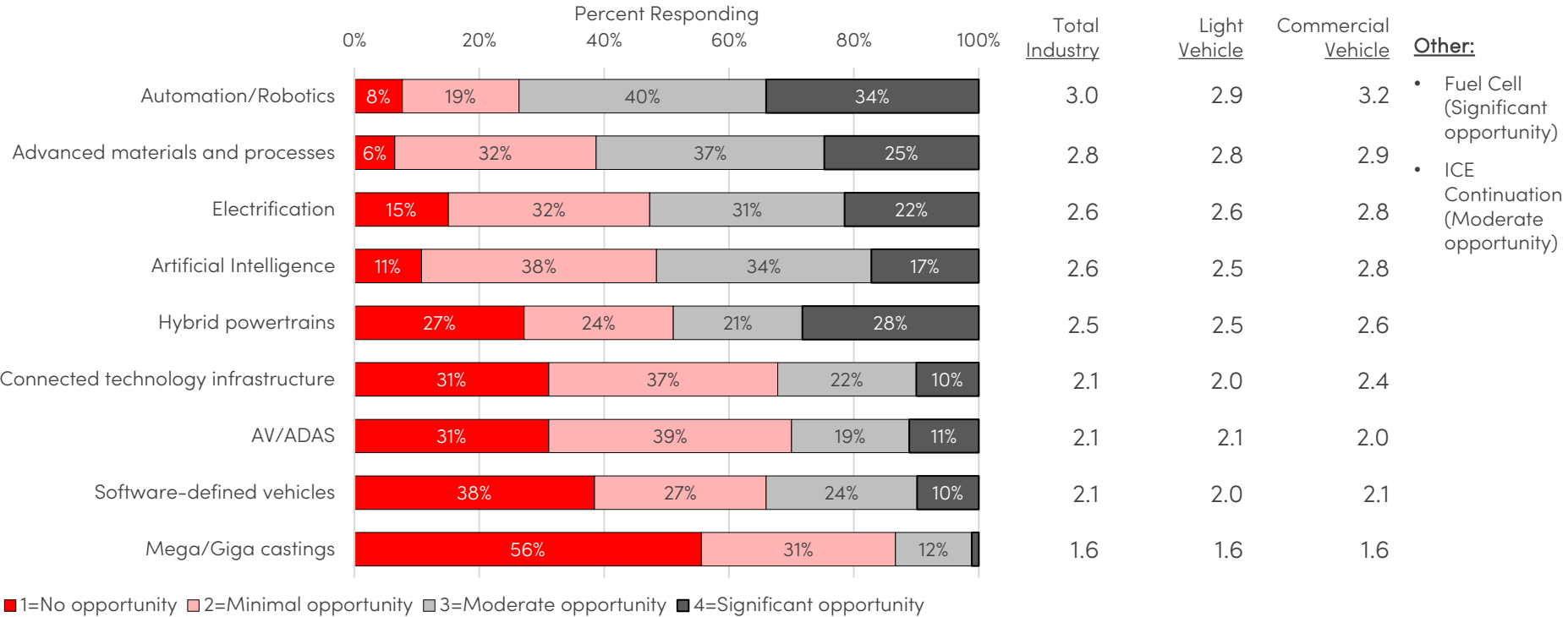
- Increased use of automation
- Invested long-term in product development.
- Major investments in human capital in R&D, hiring top talent from around the world.
- Investments in R&D made several years ago
- We sustain investment in R&D
- We typically try to identify a problem and solve it through technology.
- Automation
- Joint Ventures with leading technologies in Wheels design & Manufacturing. Such as Carbon Fiber and Cladding technologies.
- New Product Development to include sustainable products and recycled content
- Carried forward entrepreneurial mindset spurred on by Covid issues.
- Understanding of customer needs Focus on cultivating innovative culture Investment in R&D
- Lean practices, detailed strategy planning, and automation
- M&A
- New product development.
- New product leads the company vs. sales, finance, operations, etc... Culture around new products
- Investing in next gen product and process every year
- Continual investment in engineering talent, validation equipment and investing in different materials.
- Leveraging AI and incorporating in internal processes and with our customer products
- Reorg Added human capital

What specific steps has your company taken in order to increase its pace of innovation? (On pace or slightly/well behind of peer group)

- None, in business restructuring mode
- Developing new ideas based on our customers' pain points and submitting them to our R&D team for validation.
- Innovation spending has been cut due to sales declines.
- Innovation has taken a back seat to efficiency
- None
- Added a Chief Technology Officer to leadership team. Investing in new technologies (AI/Additive Manufacturing/Automation)
- Quarterly reviews with R&D and sales
- Increased application engineering size.
- added engineering resources, focused on working with customers on pre-development projects
- none
- Renewed Focus on Advanced R&D Customer Innovation Collaboration
- Focus groups
- Investments in R&D and non-auto areas
- rapid follower by choice
- Investing in employees with new and unique skillsets.
- Our strategy is to be a fast follower.
- We've made product and process innovation a key priority of the executive leadership team with regular reporting requirements.
- Additional human capital and projects outsourcing.
- Increased focus and resources for R&D
- Looking to find partners in technology.
- Measure and sticking to dates on new projects
- Investing more in R&D, looking at new product categories.
- Create dedicated groups
- Hiring engineering staff and NPD manager

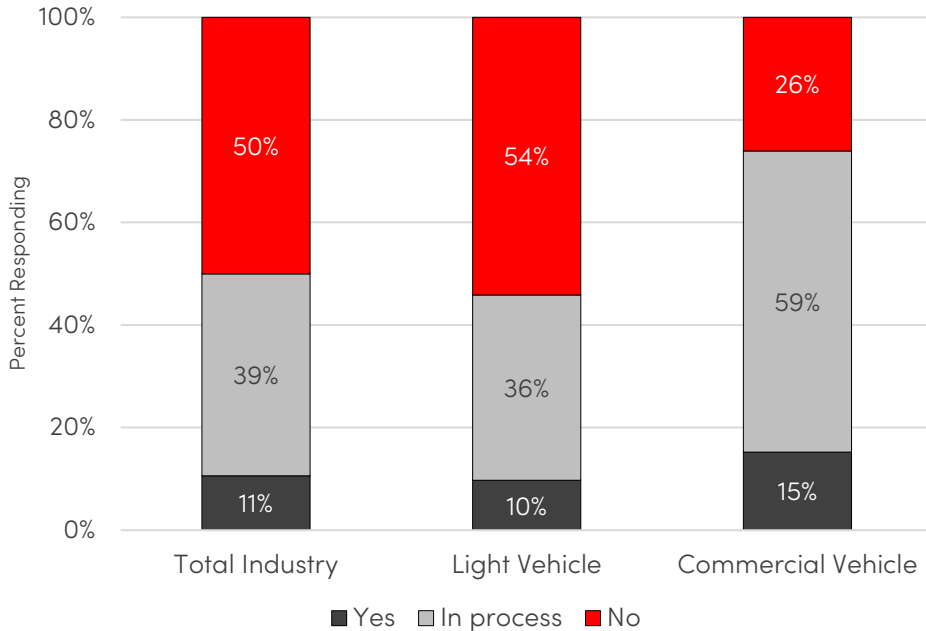
# MEMA OE Supplier Barometer: Innovation Opportunities

How much of an opportunity does your company view the following areas of innovation?



# MEMA OE Supplier Barometer: Artificial Intelligence Policy

## Does your company have a formal policy related to Artificial Intelligence (AI)?

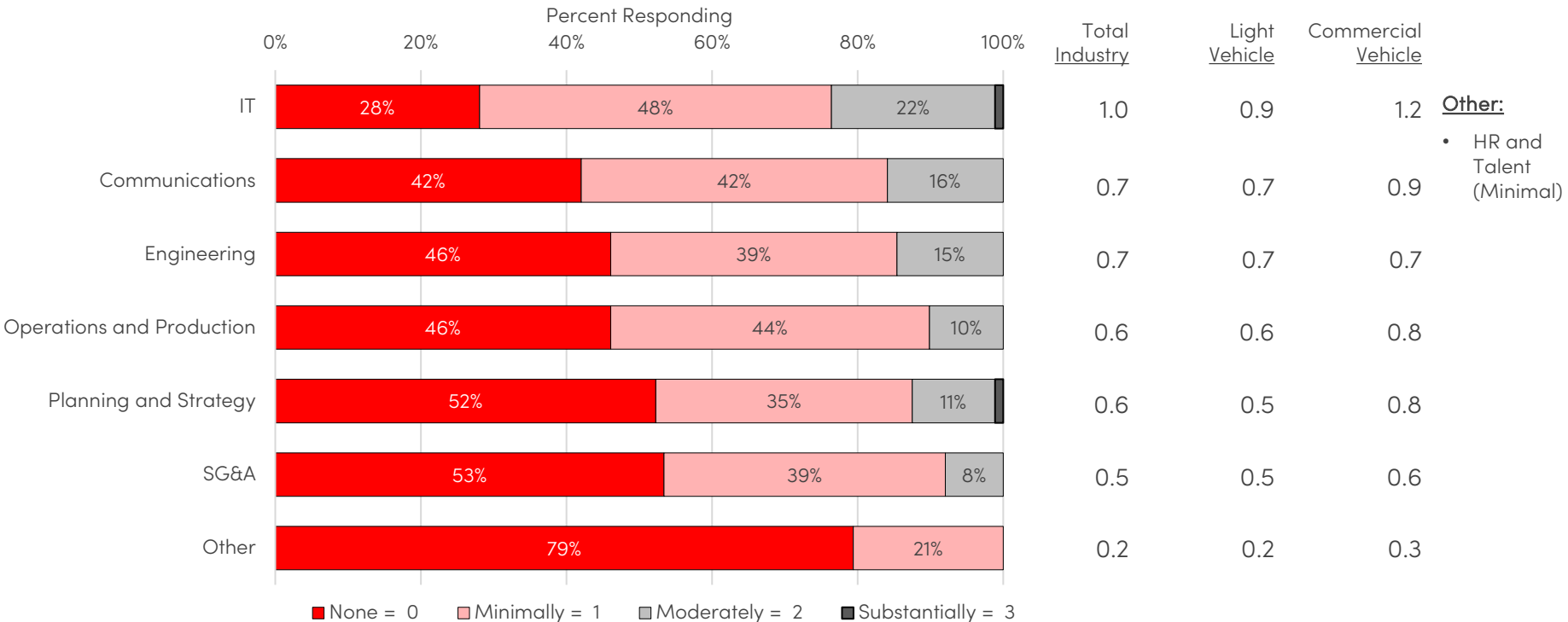


## What is your company's AI Policy?

- In process.
- Steering committee is established with IT to develop policies and procedures.
- Moving from being solely a parts provider and manufacturer to a data company.
- No utilization of public AI for business use.
- Approvals levels within company via IT
- Forbidden to use AI
- No stated policy
- Limited scope due to confidentiality concerns.
- Instituted an AI formal steering committee.
- Starting with internal use (using Co Pilot) and gaining an understanding of the capabilities and controls that are required.
- In process of developing
- We have our regulated platform

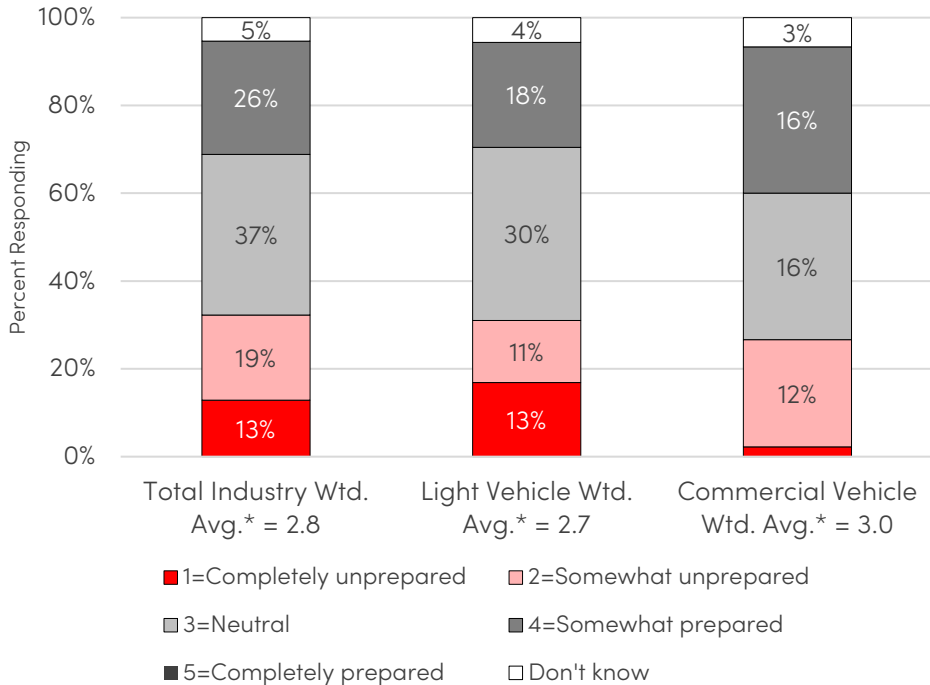
# MEMA OE Supplier Barometer: AI Integration

To what extent has your company integrated AI into the following business areas?



# MEMA OE Supplier Barometer: IT Infrastructure Preparedness for AI

How prepared is your company's current IT infrastructure to take advantage of AI integration?



What steps has your company taken to prepare its current IT infrastructure to take advantage of AI integration?

## Somewhat prepared:

- We've started to meet with third party players to understand the different approaches being taken and the pro(s) and con(s) of options. This will help us define more formally our AI strategy.
- Replaced and modernized hardware

## Neutral:

- We are implementing one small step at the time.....
- In the process of assessing
- Redundancies being built

## Completely and somewhat unprepared:

- Top-down awareness only at this point.
- none
- Added pilot for management of private copilot integration
- Project Teams, ROI is difficult to justify still at this time for major resource investments to be made

\*Excludes don't know

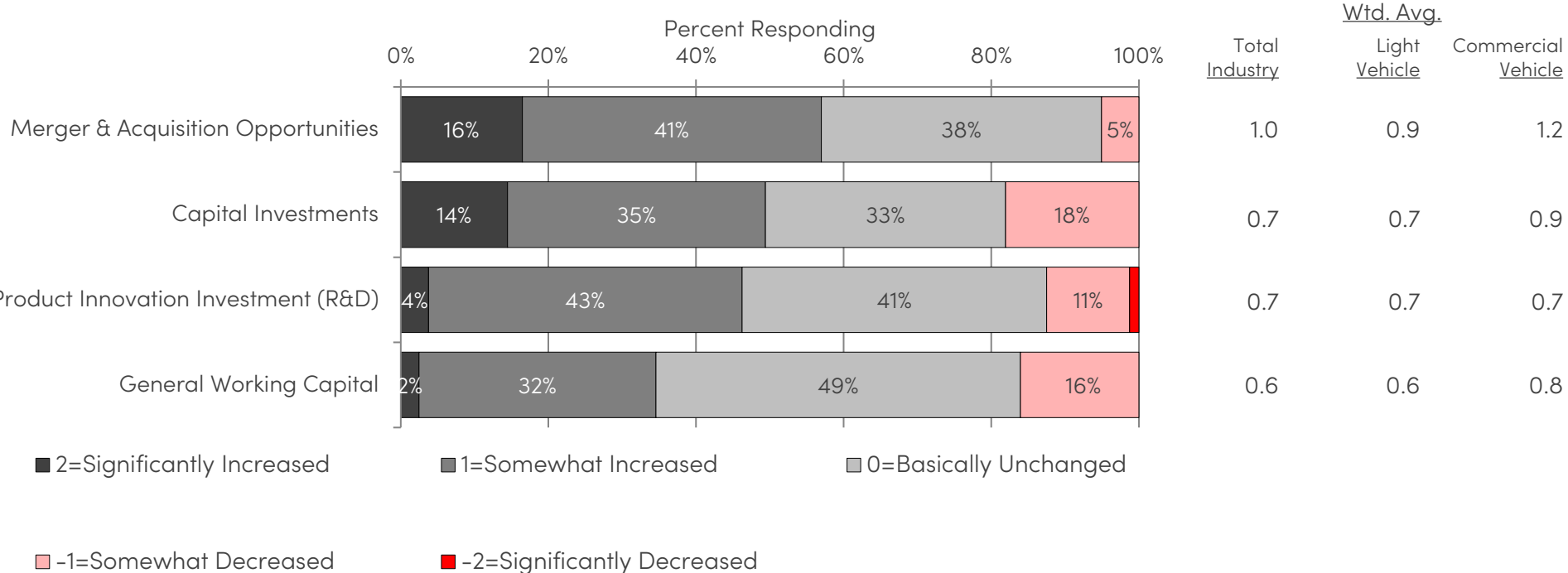


# Capital Markets

Q3 2024 Automotive Supplier Barometer

# MEMA OE Supplier Barometer: Capital Needs

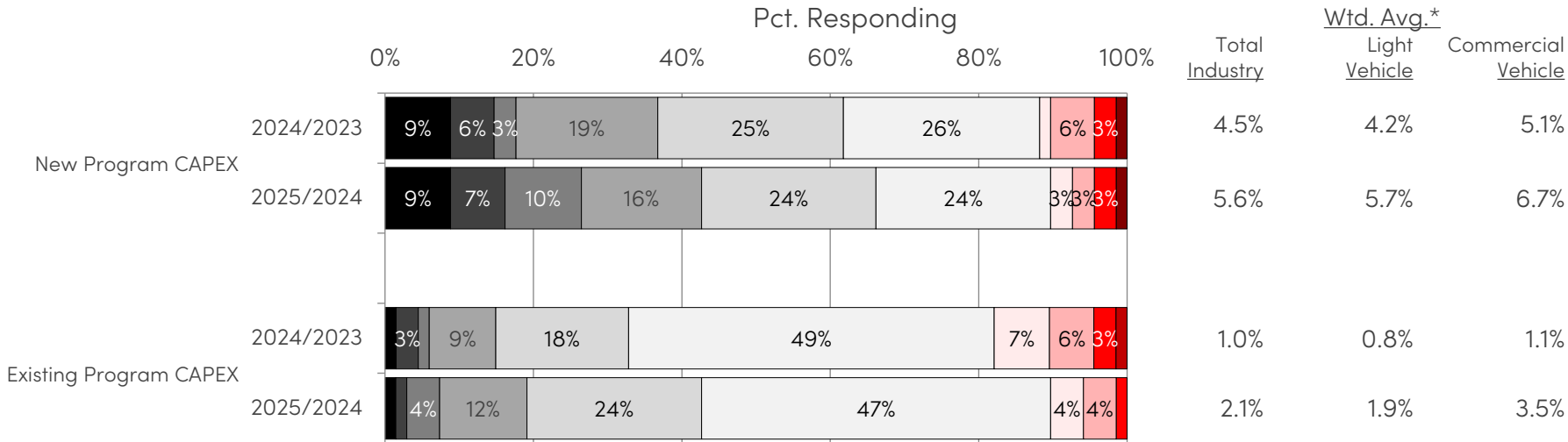
For your next fiscal year, how do you see your capital needs changing for the following requirements, compared to current year?





# MEMA OE Supplier Barometer: Capital Required

To better understand the capital needed to support the number of new program launches and production volume in North America, please estimate the change in capital expenditures using 2023 as the base year.

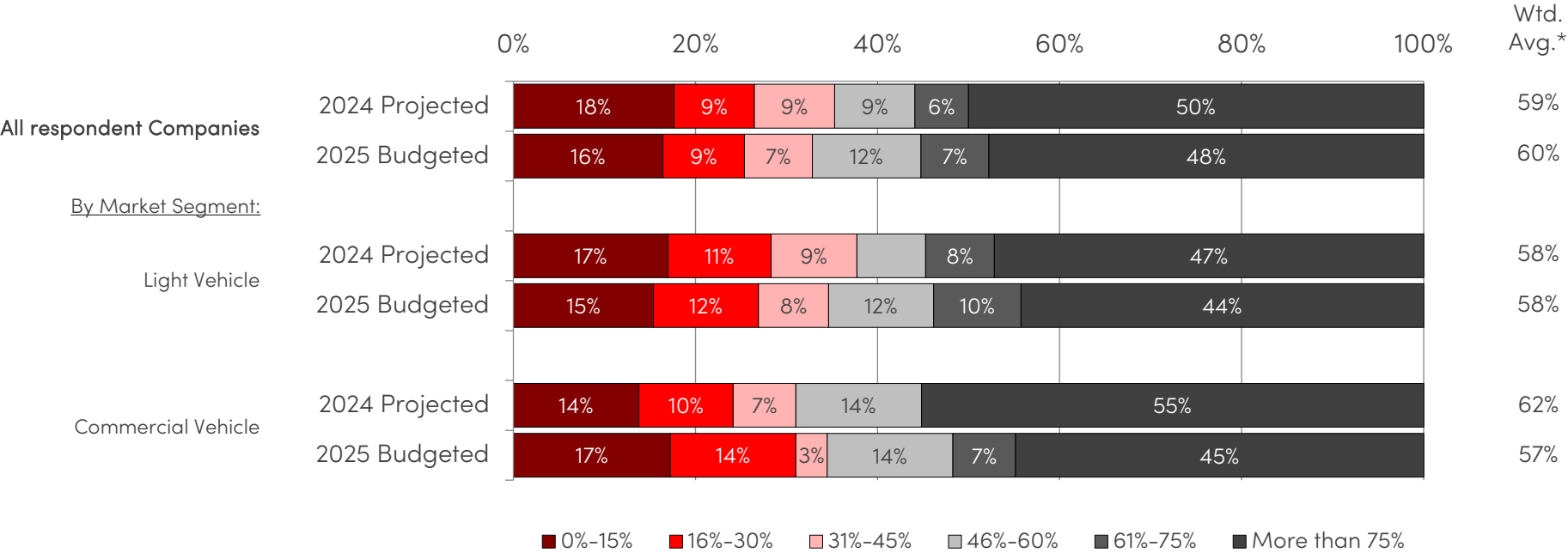


- More than 20% Increase
- 16%-20% Increase
- 11%-15% Increase
- 6%-10% Increase
- 1%-5% Increase
- No change
- 1%-5% Decrease
- 6%-10% Decrease
- 11%-15% Decrease
- 16%-20% Decrease
- More than 20% Decrease

\*Assumes mid-point of each range, >20% = 23%

# MEMA OE Supplier Barometer: Cash Flow Funding

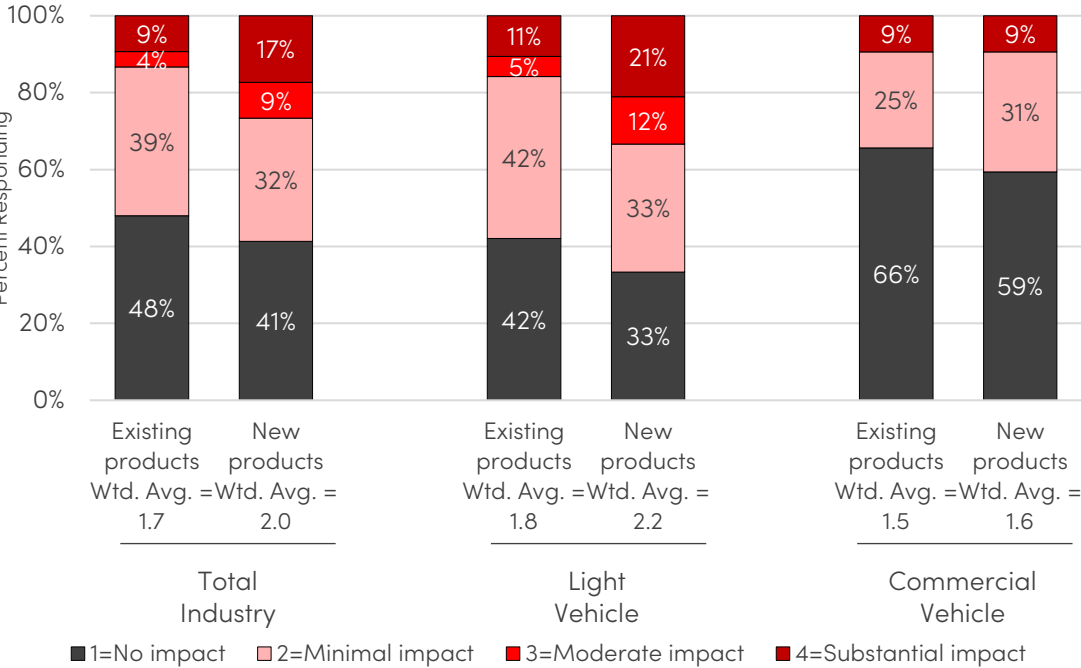
What percent of your capital needs do you estimate you will fund from free cash flow?



# MEMA OE Supplier Barometer: Cash Flow Performance

Over the past 2 years, to what extent has your company's cash flow performance hindered its ability to support existing and new product capital requirements?

What steps has your company taken to meet its capital requirements despite weaker cash flows?



**No to Minimal Impact (1-2):**

- New funding
- Cost savings initiatives companywide
- No change
- Bank loans Rent equipment
- Still at acceptable levels
- Stronger cash management. extended payable terms
- Cut waste
- Capital increase, primarily for acquisitions
- Re-finance
- Strong bank relationship w/lines of credit in place

**Moderate Impact (3):**

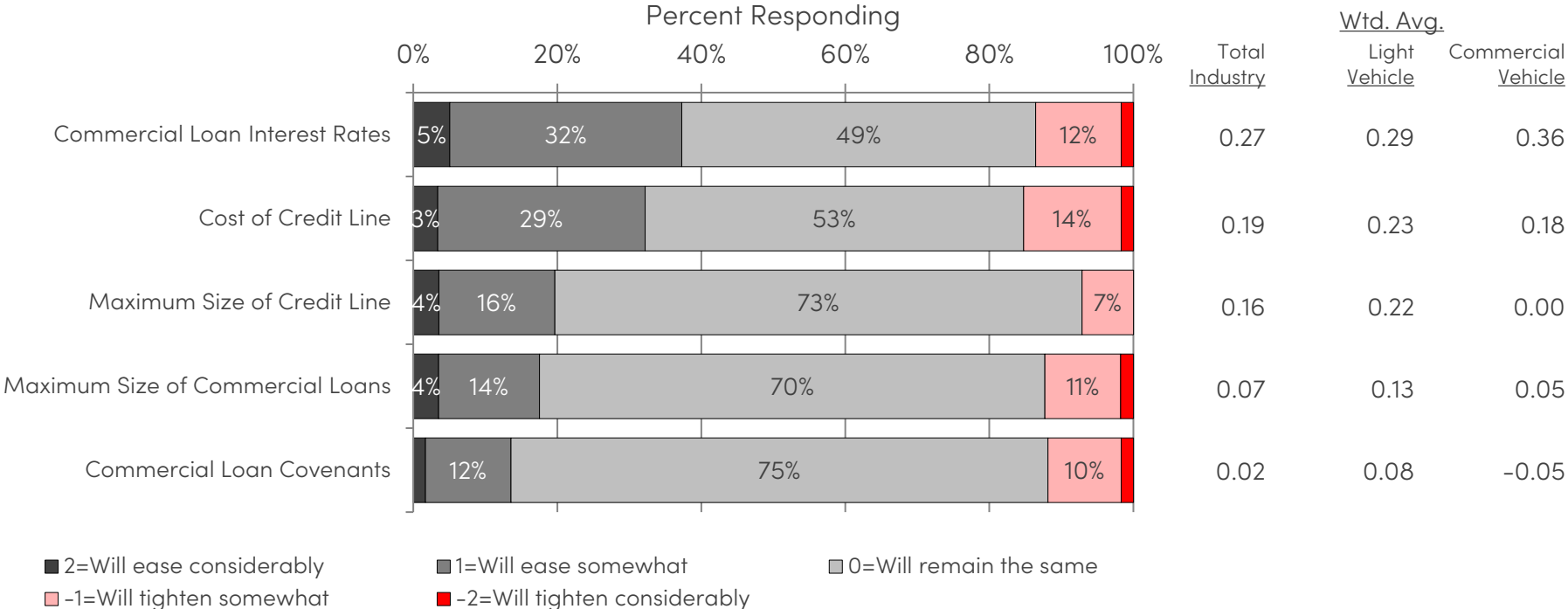
- New process to streamline CAPEX decisions and 6-phase review to reduce malinvestments
- Reduce spending on SG&A

**Substantial Impact (4):**

- Short- and long-term lending options
- Restructuring, return business to customers
- Inventory reductions, vendor payment extension, inflation recoveries
- M&A
- Additional funding

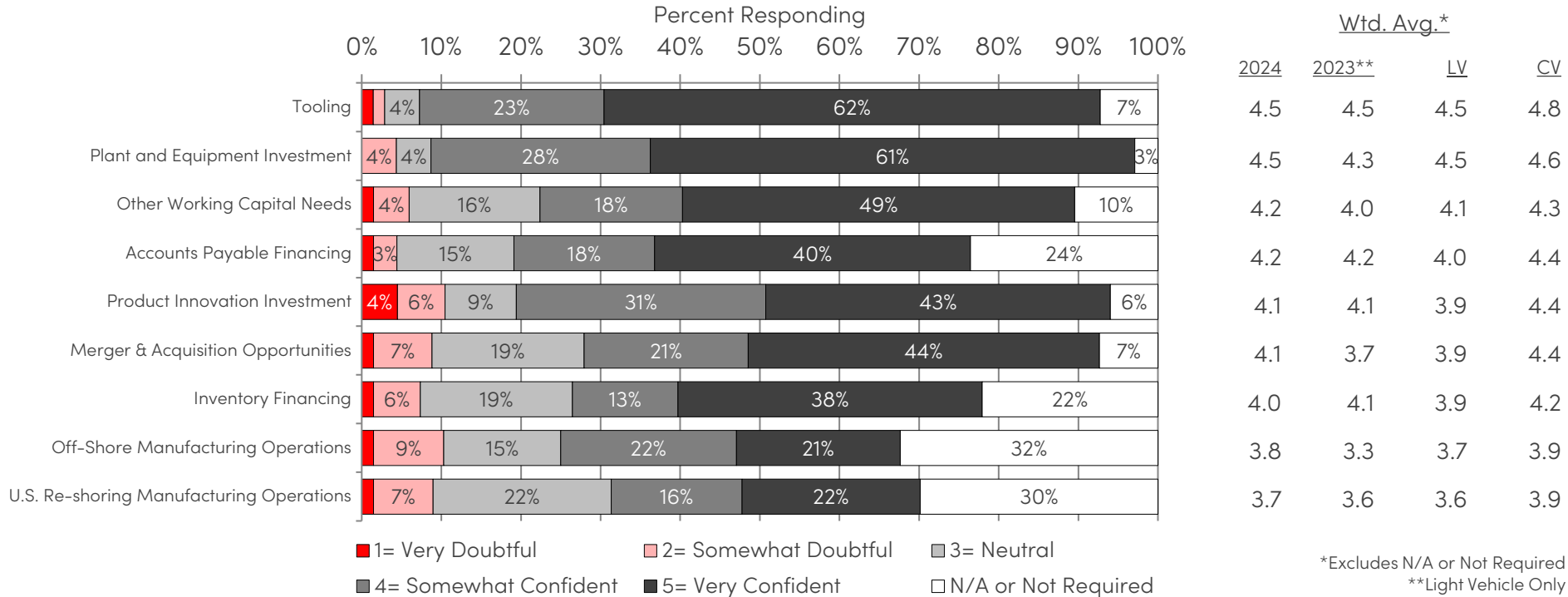
# MEMA OE Supplier Barometer: Commercial Loans and Lines of Credit

Considering your lead commercial bank, over the next 12 months, how do you anticipate the terms of your commercial loan or credit line applications changing?



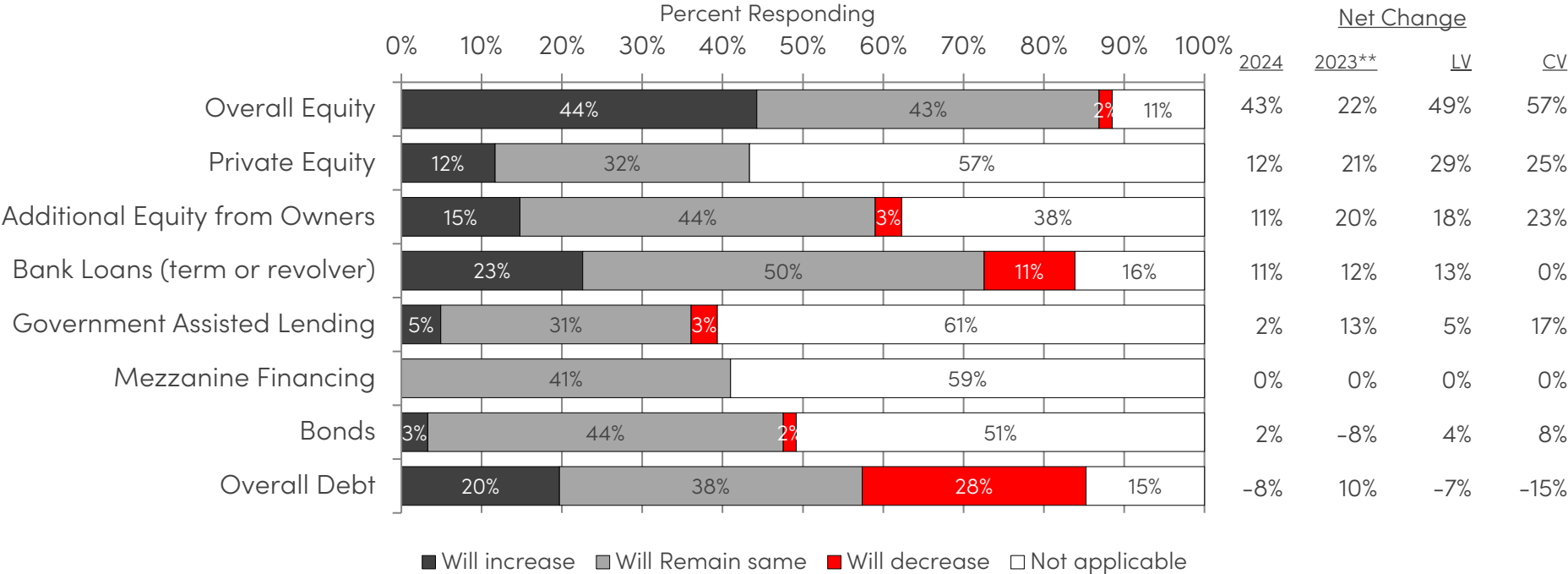
# MEMA OE Supplier Barometer: Access to Capital

Over the next 12 months, how confident are you that you will be able to access required levels of capital at appropriate costs for the following uses?



# MEMA OE Supplier Barometer: Sources of Capital

Over the next 12 months, indicate whether the following sources of funds will increase/decrease/remain the same in importance on your balance sheet?



# MEMA OE Supplier Barometer: Appendix



**MEMA OE Automotive Supplier Barometer** is a survey of the top executives of MEMA regular member companies. The MEMA OE Automotive Supplier Barometer takes the pulse of the suppliers' twelve-month business sentiment. In addition, it provides a snapshot of the industry commercial issues, business environment and business strategies that influence the supplier industry. [mema.org](https://www.mema.org)

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## Survey Methodology

- Data collected July 16 – August 2 via invitation to online survey.
- Executives of MEMA supplier companies.
- 89 complete survey responses were received, with 102 responses total.

The information and opinions contained in this report are for general information purposes. Comments are edited only for spelling and may contain grammatical errors due to their verbatim nature. Responses to this survey are confidential. Therefore, only aggregated results will be reported, and individual responses will not be released or shared.

### Antitrust Statement:

Respondents/participants should not contact competitors to discuss responses, or to discuss the issues dealt with in the survey. It is an absolute imperative to consult legal counsel about any contacts with competitors. All pricing and other terms of sale decisions and negotiating strategies should be handled on an individual company basis.

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