

# Detailed company Report – Automobile Giant

**XXXX XXXX**

*Internal Use Only*

# Automobile Giant

## Executive Summary

### Executive Summary

- Automobile Giant is engaged in manufacturing and distribution of automobiles. Geographically, the company categorizes its business operations areas - North America, South America, Europe and Asia Pacific & Africa.
- Geographically, the US Automobile Giant's largest geographic market accounted for ~ 56.9 percent of the total revenue in 2012.

### Key Issues and Risks

- Substantial pension and postretirement health care and life insurance liabilities
- Pressure exerted by employee unions
- Automobile Crisis
- Regulatory compliance in Automotive and the financial sectors
- Reputational Damages due to Legal Proceedings

### Key Initiatives

- Focus on restructuring and transformation
- Accelerating supply chain optimization to speed up the consolidation of its global supply base
- Dealership optimization [in US] and development [emerging markets]
- Global Platform
- Developing products on the east and key car areas - Quality, Green, Safe and Smart
- Focus on Global Expansion
- Maintain an investment-grade balance sheet

### Key Initiatives

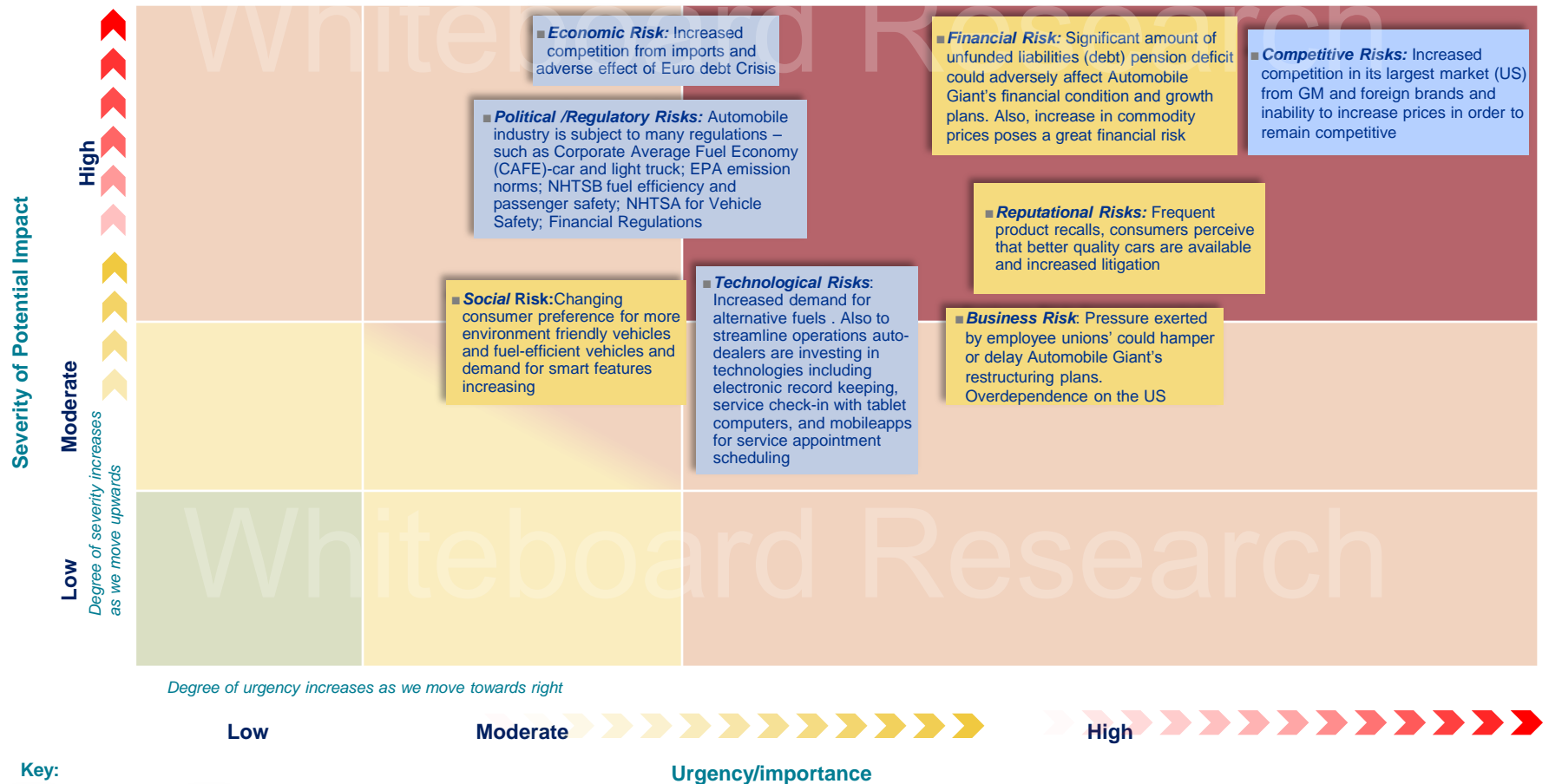
### Executive Summary

- Automobile Giant's mission statement is "One Automobile Giant - One Team, One Plan, One Goal"
- The key message of Automobile Giant is: "Quality comes first. Customers are the focus of everything we do. Continuous improvement is essential to our success. Employee involvement is our way of life. Dealership involvement is never compromised"
- Automobile Giant regained its blue oval logo in May 2012, it never stopped using its logo on factories, but posted them as collateral in 2006 in order to get a US\$23.5 billion loan and avoid bankruptcy. Automobile Giant has a new slogan to "Go Further"

# Automobile Giant

## Executive Summary: Issues/Risk Map

*Automobile Giant is subject to multiple risks and issues. Key risks/issues revolve around unfunded liabilities and debt pension deficit could hamper Automobile Giant's "ONE Automobile Giant" growth plan and its financial condition*



Source: Whiteboard Research analysis

## Executive Summary: Sector Trends and Company Issues

### Sector Trends

#### Political:

- Corporate Average Fuel Economy (CAFE)-car and light truck; EPA emission norms; NHTSB fuel efficiency and passenger safety; NHTSA for Vehicle Safety; and Financial regulations
- Labour union pressures

#### Economic:

- US auto industry to grow because of improving unemployment rates and improved housing market
- New vehicles are financed and loans are being repayed
- Increased competition from imports
- Auto companies reducing number of car models to decrease cost
- Adverse effect of Euro debt Crisis
- Opportunities in APAC region
- Excess capacity

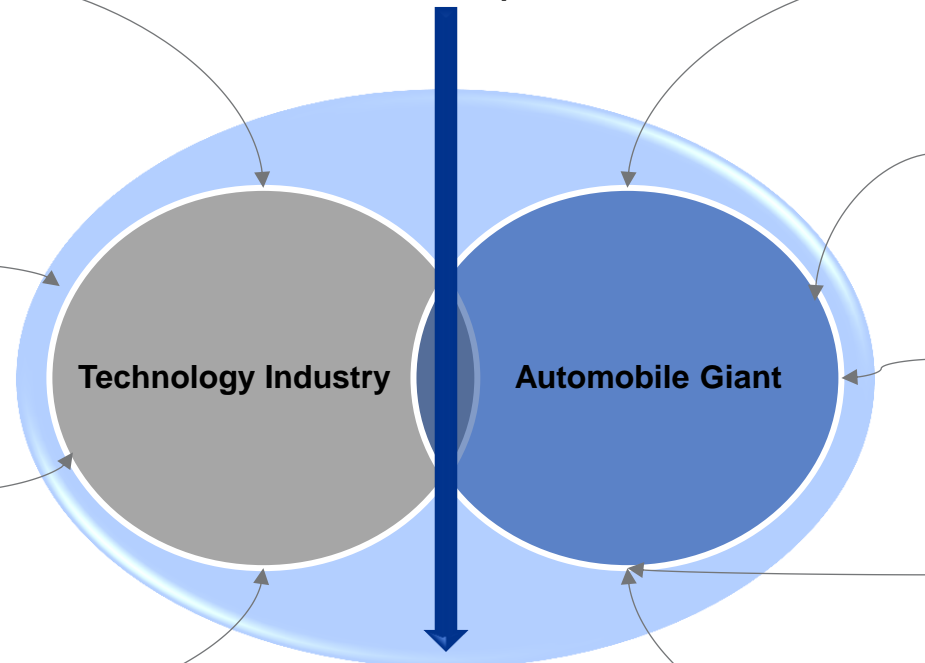
#### Social:

- Changing consumer preference for more environment friendly vehicles and fuel-efficient vehicles
- Demand for smart features increasing

#### Technological:

- Focus on new product development
- Increased demand for alternative fuels and hybrid models
- Production technology improvement to reduce cost
- To streamline operations auto-dealers are investing in technologies including electronic record keeping, service check-in with tablet computers, and mobileapps for service appointment scheduling

“Sweet Spot”



Technology Industry

Automobile Giant

Services offered

can offer solutions such as Cost and Capital Optimization, Corporate Finance-Special Situations, Insurance, Risk Management, Open and Closed End Fund, Financial Planning, Compliance, Strategic Planning, Mergers and Acquisitions, Restructuring, Bankruptcy, Consumer Protection, Sustainability Services, Fraud Risk Management

### Company Issues and risks

#### Competitive Risks:

- Increased competition in its largest market (US) from GM and foreign brands
- Inability to increase prices in order to remain competitive

#### Financial Risks:

- Significant amount of unfunded liabilities (debt) —pension deficit could adversely affect Automobile Giant's financial condition and growth plans
- Increase in commodity prices

#### Reputational Risks:

- Frequent product recalls
- Consumers perceive that better quality cars are available
- Increased litigation and other disputes with counterparties regarding quality, safety regulations and regulatory standard

#### Business Risks:

- Pressure exerted by employee unions' could hamper or delay Automobile Giant's restructuring plans
- Restructuring plans might not be able to generate desired results
- Overdependence on the US

#### Others:

- Regulatory risks due to stringent fuel-efficiency, emissions and safety standards
- Technology risks

Notes: NHTSB-National Highway Transportation Safety Board; NHTSA-National Highway Traffic Safety Administration; EPA-Environmental Protection Agency

Source: Whiteboard Research analysis; First Research reports; Factiva (news articles); Analyst reports

# Automobile Giant

## Company Snapshot

### At a Glance

- Automobile Giant is engaged in manufacturing and distribution of automobiles. Automobile Giant, along with its subsidiaries and affiliates, offers cars, trucks, SUVs and many other products and services to automotive consumers. The company is also active in the business of car rental and leasing activities, car financing and other related financing activities
- Automobile Giant operates distribution centers and warehouses, engineering, research and development facilities, sales offices and manufacturing facilities in North America, South America, Europe and Asia Pacific & African region
- Automobile Giant operates in two sectors: Automotive and Financial Services
- Within these sectors, the business is divided into reportable segments: Automobile Giant North America, Automobile Giant South America, Automobile Giant Europe, Automobile Giant Asia Pacific Africa, Automobile Giant Motor Credit Company and Other Financial Services
- Automobile Giant and Lincoln are the wholly-owned brands of the company

### Geographic Presence

- Geographically, the company categorizes its business operations areas - North America, South America, Europe and Asia Pacific & African region
- In 2012, US Automobile Giant's largest geographic market, accounted for 56.9 percent (of the total revenue), Canada (7.1 percent), UK (6.9 percent), Germany (6.2 percent), France (1.5 percent), Spain (1.3 percent), Italy (1.2 percent), Mexico (1 percent), Belgium (0.7 percent), Other Europe (3.1 percent) and Others (14.1 percent)

### Products and Services

- *Automotive products:*  
Sedan cars, Crossovers and SUV's, Trucks, Hybrids and EV's, Commercial trucks, Vehicle accessories, After sales vehicle parts and products
- *Automotive Services:*  
Maintenance and vehicle repair services
- *Financial services:*  
Retail financing, Commercial financing, Wholesale financing, Third-party claim management services, Chassis financing, Vehicle insurance services

Source: Company website; Company annual report 2012; Analyst reports; Fortune website

### Key Facts

Industry	Automotive
Auditor	Price Waterhouse Coopers LLC
Key SIC Code	3711- Motor Vehicles and Passenger Car Bodies
Company Type	Public Limited Company
Stock Exchange	NYSE
Regulators	Securities and Exchange Commission (SEC)
FORTUNE Rank	XX (2013)
Year Founded	XXXX
Company Website	<a href="http://www.XXXXXXXXXX.com">www.XXXXXXXXXX.com</a>
Headquarters	XXXXXXXX
Sales	US\$ XXXX million (year 2012)
Employees	XXX,000 (as of Dec 31, 2012)

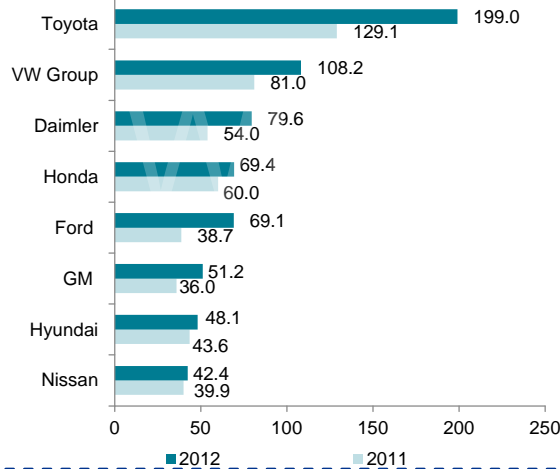
### Top Management

Chairman of the board	XXXXXXXXXXXXXXXXXX
President and CEO	XXXXXXXXXX
EVP and CFO	XXXXXXXXXX
COO	XXXXXXXXXX

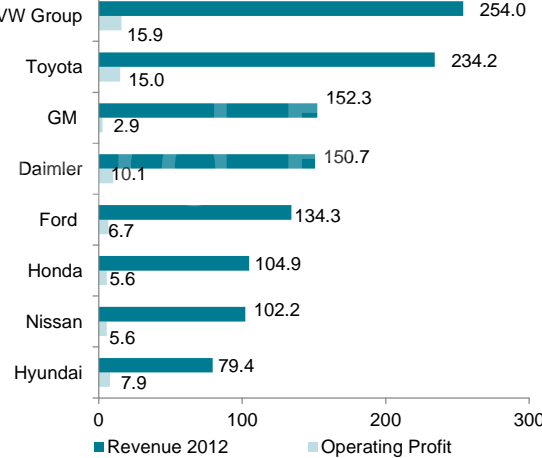
# Automobile Giant Competitive Analysis

Despite witnessing high growth in its market capitalization, Automobile Giant's registered a moderate operating margin vis-à-vis its competitors

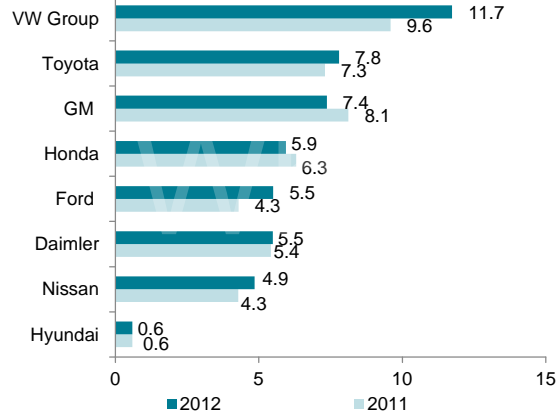
**Market Capitalization – Key Competitors**  
(US\$ Billion, 2011 and 2012)



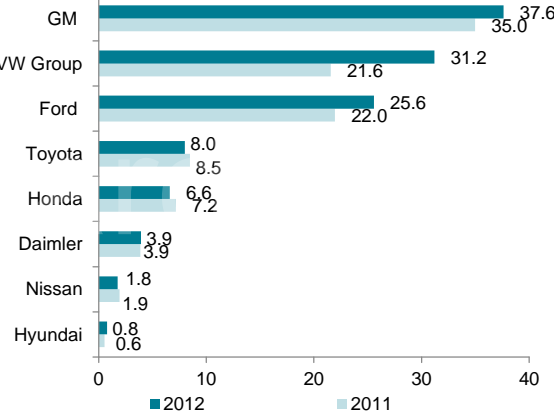
**Revenue – Key Competitors**  
(US\$ Billion, 2012)



**R&D Expenses – Key Competitors**  
(US\$ Billion, 2011 and 2012)



**Pension Costs – Key Competitors**  
(US\$ Billion, 2011 and 2012)



## Market Outperformer

- Registering a 78.6 percent y-o-y growth in its market capitalization in 2012, Automobile Giant's shares have outperformed its competitors
- The growth is primarily driven on account of positive implementation of restructuring of its operations
- However, Automobile Giant's total market capitalization is relatively lower than many of the larger global players, such as Toyota and VW Group

## Moderate Margins on account of adverse cost structure

- At 5 percent, Automobile Giant's operating margins stood among the lowest in the industry
- Lower margins can be attributed to Automobile Giant's focus being on smaller cars targeted in emerging regions
- Further, Automobile Giant has suffered from an adverse cost structure on account of high employee costs, primarily pensions

## Analysis

- The company has recently undertaken various measures to de-risk its global funded plans
- Relatively smaller players – Hyundai and Nissan – registered higher margins, with Hyundai being the highest at 11 percent

## Not a pioneer of R&D

- In 2012, Automobile Giant's R&D spend totaled US\$5.5 billion, accounting for about 4.1 percent of the revenue
- Majority of Automobile Giant's R&D spend is directed towards development of fuel efficient and electric engine

Source: Company website and annual reports; CapIQ

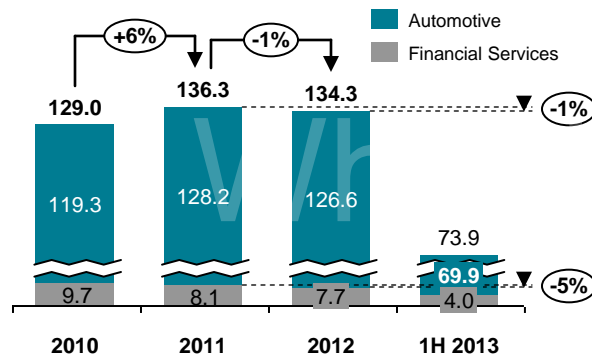
# Automobile Giant

## Financial performance

In FY'12, Automobile Giant revenues declined marginally by 1 % to US\$134.3 billion, majorly driven by revenue decline for 'Automobile Giant Credit' & 'Automobile Giant Europe' — however, in Q2 2013 Automobile Giant Europe revenue improved c.8 % in comparison to Q2 2012

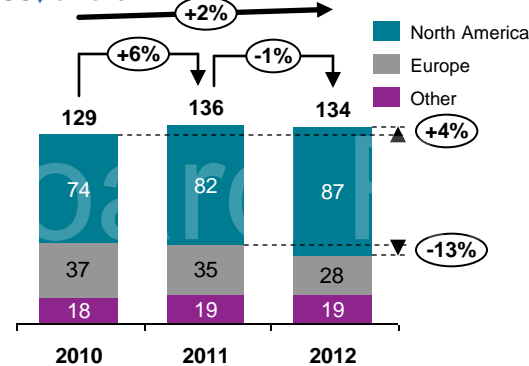
**Total Revenue (2010–1H 2013)**

US\$ billions



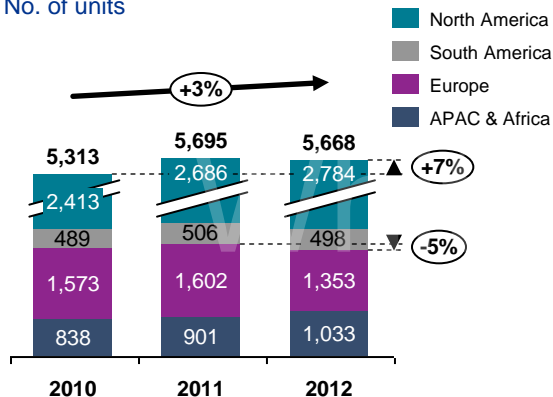
**Regional Split of Revenue (2010–1H 2013)**

US\$ billions



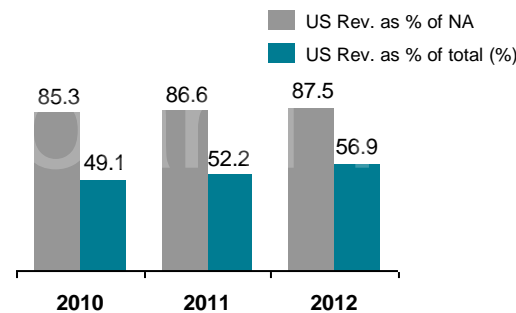
**Total Unit Sales (2010–2012)**

No. of units



**US Revenue as Percent of North America and Total Revenue(2010–2012)**

Percent



In 2013, Automobile Giant's total revenue decreased by c. 1 percent to US\$ 134.3 billion in comparison to US\$ 136.3 billion in 2012

■ **Automotive:** In 2013, revenues declined marginally by c. 1 percent to US\$134.3 billion in comparison to 2011

■ **Financial Services:** Revenues declined 5 percent (US\$0.4 billion) to US\$7.7 billion

■ **Regional Break-up of revenues**

Automobile Giant's revenue in North America in 2012 accounted for 87 percent of the total group revenue in comparison to 2011. 'Automobile Giant Credit' generated revenue of US\$1.7 billion. Automobile Giant's dependence on the US has been increasing since 2010. In 2011 and 2012, US accounted for 52.2 percent and 56.9 percent of the total group revenue, respectively

■ **Automobile Giant Europe**

In comparison to 2011, 'Automobile Giant Europe's revenue declined due to lower industry sales and market share, and reductions in dealer stocks

Unfavorable exchange rate was also one of the factors adversely affecting net revenue

FY 2013, Automobile Giant expects to benefit from the non-repeat of dealer stock reductions to the degree incurred in 2012

In Q2 2013, the wholesale volume and revenue each improved c.8 percent in comparison to 2Q 2012. This was facilitated by non-repeat of dealer stock reductions incurred in 2012 and

higher market share. The increase was partially offset due to lower industry volume

Notes: NA-Not applicable; FY ended December 31; Figures for 1H 2013 have been included wherever available; Unaudited figures for H1 2013 and Q2 2013

Source: Company Annual and Quarterly reports