



Automotive Supply Chain Workouts – Under the specter of COVID-19

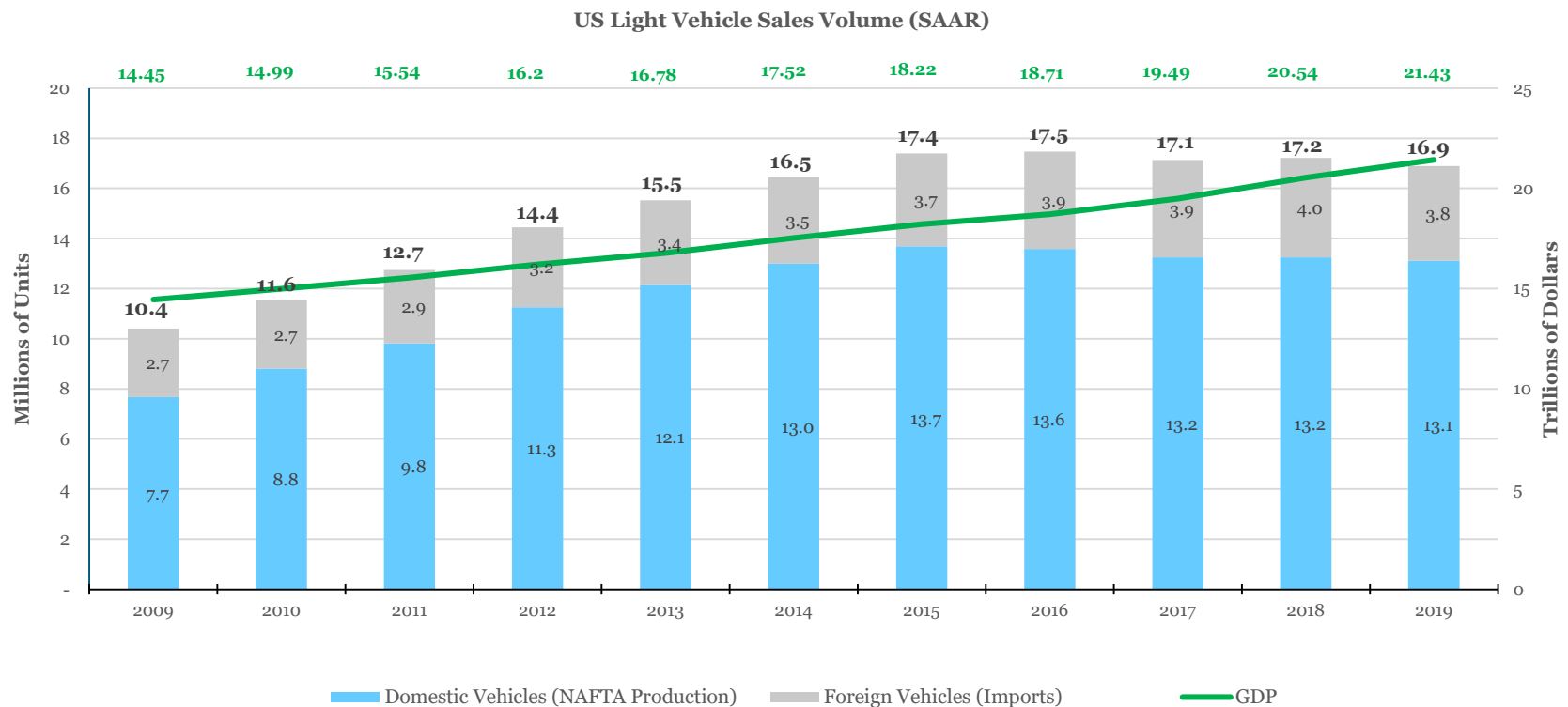


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US Vehicle Sales

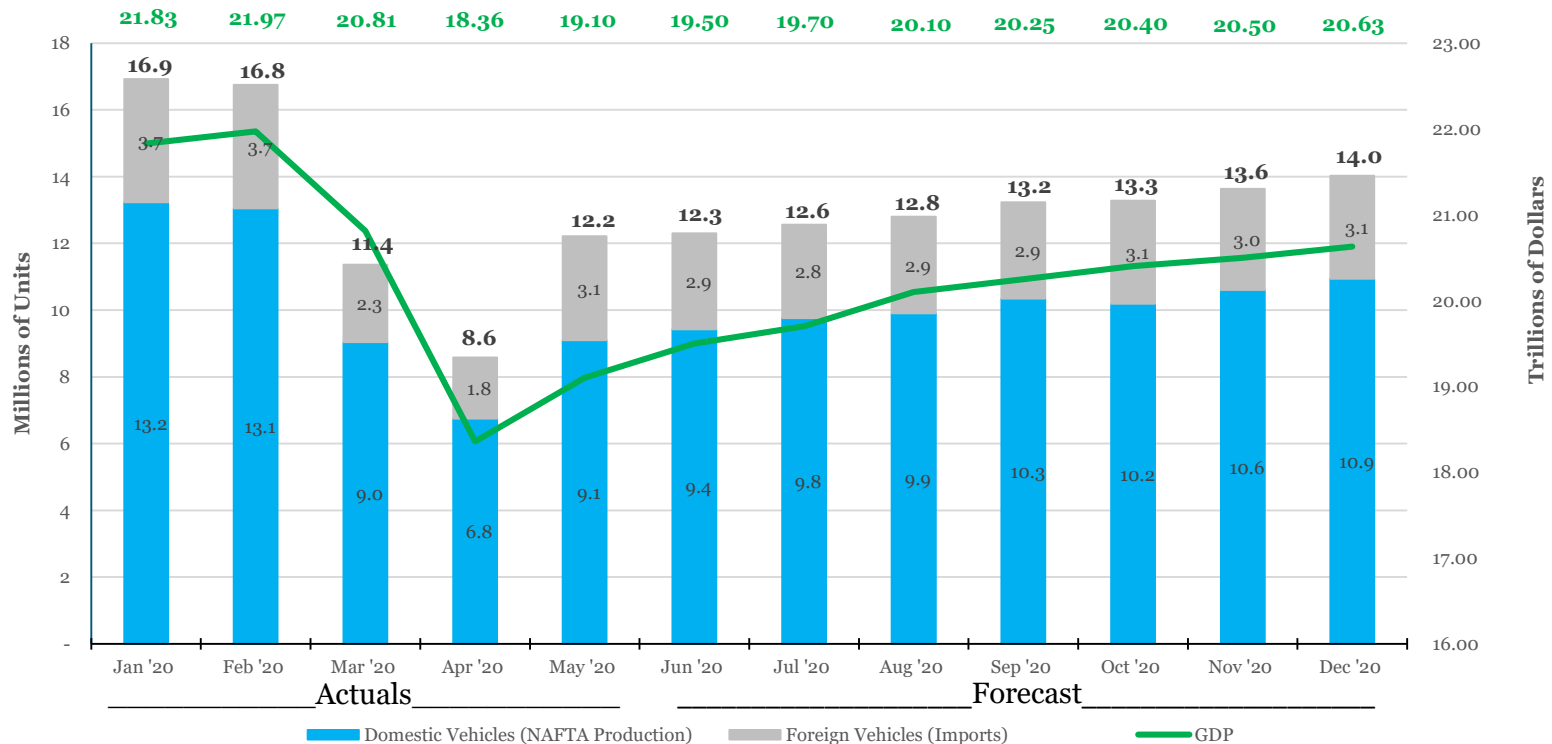
- **US Light Vehicle Sales Volume (SAAR)** emerged from the financial recession and grew by an annual average of 9% over a 6-year period from 2009 to 2015. Volumes have remained stable from 2015-2019 and were on track for a healthy 2020 before the COVID-19 pandemic.



US Vehicle Sales – 2020

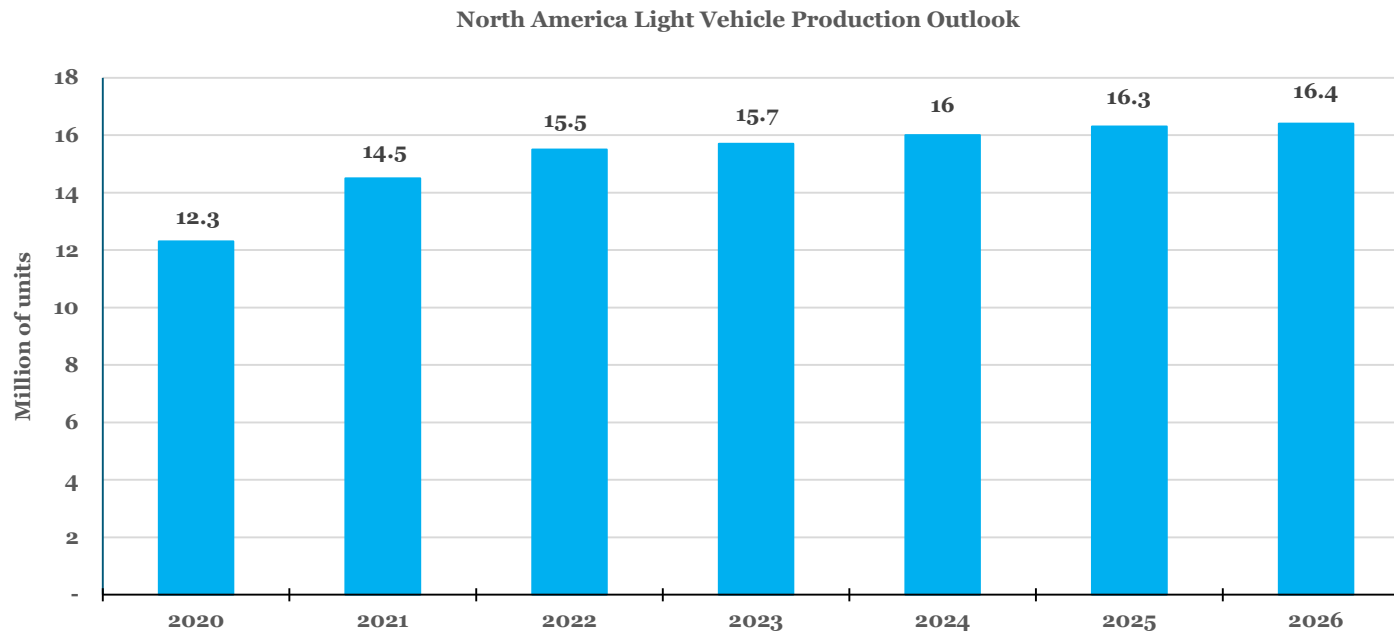
- US Light Vehicle Sales Volume (SAAR) declined by 32% from February to March as the impact from COVID-19 caused OEMs to shut down their facilities around March 18, 2020. SAAR volume declined an additional 24% from March to April as OEM facilities remained shut down for the entire month. This represents an almost 50% decline from February levels. The rebound in May has been a positive development and the forecast for the rest of the year is expected to gradually increase from the May 2020 levels.

US Light Vehicle Sales Volume (SAAR)



North America Light Vehicle Production Outlook

- The path back to 16 million units will be gradual and take several years due to impact of COVID.
- Stimulus measures by the Government and low interest rates will improve vehicle affordability in North America.
- OEMs favor well-capitalized and global suppliers in critical sectors.
- Consolidation is possible.



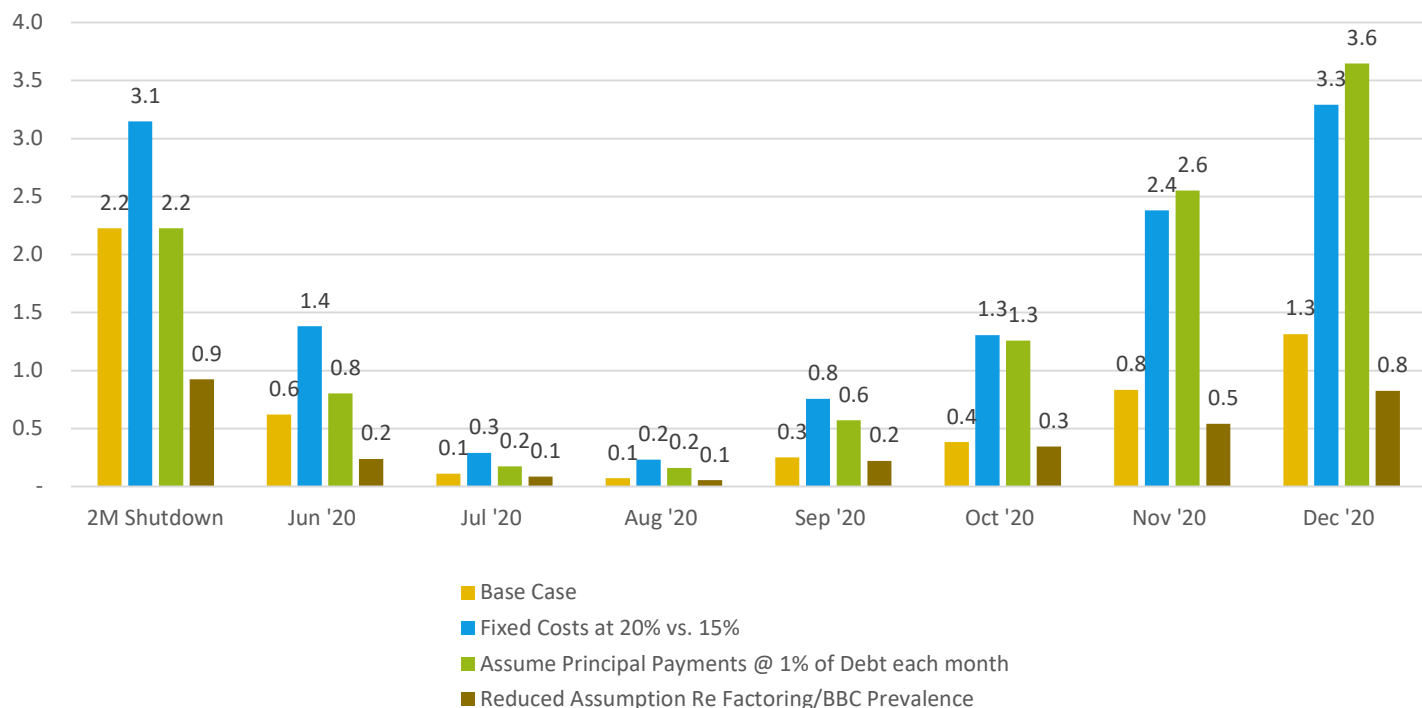
Government Programs – CARES Act

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was passed by Congress and signed into law on March 27th, 2020. This \$2 trillion+ economic relief package is intended to address the economic fallout as a result of the COVID-19 pandemic in the United States.

- One of the most significant components of the CARES Act. is the **Paycheck Protection Program**, a new loan program administered and guaranteed by the SBA. The intent is for small businesses and independent contractors to maintain payroll and headcount during the COVID-19 crisis.
 - The CARES Act initially designated \$349 billion for the PPP. Due to heavy demand and complete exhaustion of funds after only a few weeks, an additional \$310 billion of PPP funds was approved in April, bringing the total to **\$659 billion**.
 - Small businesses that qualify will receive **the lesser of \$10 million or 2.5x monthly average payroll cost**. Completely forgiven if 60% of loan is used for payroll costs over a twenty four week period.
- Economic Injury Disaster Loan (EIDL) allocated \$20 billion for small businesses that qualify receive the following:
 - **Low-interest loans up to \$2 million** for payroll, accounts payable, payment of fixed debt and other working capital related needs.
 - Loans have a **maximum interest rate of 3.75% for small businesses** and 2.75% for nonprofit organizations, and extended payment terms, up to a **maximum of 30 years**.
 - Upon application for an EIDL loan, borrower may request an emergency grant of \$10,000. Grant does not have to be repaid, even if the application is denied.
- Main Street Lending Program - Federal Reserve will use funds from the CARES Act Title IV to make a \$75 billion investment in a single Special Purpose Vehicle (SPV) to purchase participations in loans originated by eligible lenders. **The intent is to facilitate lending to small and medium-sized businesses that were in sound financial condition before the onset of the COVID-19 pandemic**. The SPV will purchase majority % (85% to 95%) of eligible loans at par value with lenders retaining the remaining % (15% to 5%). The combined size of the program can be leveraged up to \$600 billion.
 - Program has three unique loan facilities: (1) Main Street New Loan Facility, (2) Main Street Priority Loan Facility, and (3) Main Street Expanded Loan Facility.
 - Businesses that qualify must have **fewer than 15,000 employees or less than \$5 billion in 2019 revenue**, must be organized in the United States with significant operations in and a majority of employees based in the United States.
 - Eligible borrowers can only participate in one of the three unique loan facilities.
 - **Loans have a 4 year maturity** with principal and interest payments deferred for one year. Interest is adjustable based on LIBOR (1 or 3 months) + 300 basis points with no prepayment penalty.
 - Each loan facility has its own unique loan calculations and can be found at the Federal Reserve website for the Main Street Lending Program under the respective Term Sheets. <https://www.federalreserve.gov/monetarypolicy/mainstreetlending.htm>

Potential Liquidity Impact of COVID 19 on Supply Base

Liquidity Shortfall for OEM Insolvent Dataset (USD in Billions)



- Approximately 100 public suppliers in the data set
- Liquidity challenges emerging after shutdown driven by some suppliers having borrowing bases/factoring arrangements
- Ability to immediately borrow on post shutdown sales improve liquidity situation for suppliers with borrowing bases/factoring arrangements
- Ongoing losses due to reduced volumes drive up suppliers (with all types of lending arrangements) liquidity challenges over time

OEM Incentives – June 2020

- Dealers are adapting to the changing landscape by adopting online sales procedures and home delivery options. The majority of OEMs are offering 0% APR for terms up to 72 months and payment deferrals or a cash rebate. Most recent incentives for a sample of OEMs are as follows:
 - Ford – 0% APR for 72 months; Expires July 6, 2020
 - GM – Cash allowance (based on vehicle) PLUS 4 months payment deferral (based on vehicle) OR 0% APR for 60-72 months (based on vehicle); Expires June 30, 2020
 - FCA - 0% APR for 72 months PLUS 3 months payment deferral on JEEP brands; other models qualify for cash allowance (based on vehicle) or 0% APR for 36-60 months (based on vehicle); Expires June 30, 2020
 - AUDI – Essentially entire product line is offering 0% APR for 36 months PLUS first month's payment deferred for 2 months; Expires June 30, 2020
 - BMW – Essentially entire product line is offering 0.9% APR for 60 months; Expires June 30, 2020
 - Nissan – 0% APR for 36-60 months (based on vehicle) PLUS 3 months payment deferred PLUS 2 months payment relief (not all vehicles qualify for payment relief); Expires July 6, 2020
 - Hyundai – Cash allowance of 0% APR for extended terms PLUS 3 months payment deferral on most vehicles; Expires June 30, 2020
 - Honda – Essentially entire product line is offering 1.9% APR for 24-60 months (based on vehicle); Expires July 6, 2020
 - Toyota – Cars & Minivans are offered at 1.9% APR for 60 months; Trucks & SUVs have incentives ranging from cash allowance or 1.9% APR for 60 months; Expires July 6, 2020
 - Mazda – Essentially entire product line is offering 0% APR for 60 months AND 3 months payment deferral; Expires June 30, 2020
 - Subaru – Essentially entire product line qualifies for 0% APR for 63 months; Expires June 30, 2020

Hyundai and Volkswagen are showing the lowest levels of declines in total retail unit sales due to their robust product lines with strong deferred payment options, low interest rates, and job loss programs.

Fleet

- We are starting to see fleet sales significantly decline. The relationships that automakers have with their partners and how they are willing to amend those agreements will be critical in fleet sales impact,” said Nick Woolard, Director of OEM and Affinity Partner Analytics at TrueCar. “We expect that automakers with commercial and government contracts will fare better than those with daily rental contracts.”

FLEET SALES

	May-19	May-20	% Change
A Commercial Fleet			
Car	8,621	1,207	(86.0%)
Truck & SUV	68,045	22,659	(66.7%)
Total Commercial Fleet	76,666	23,866	(68.9%)
B Rental Fleet			
Car	74,985	5,024	(93.3%)
Truck & SUV	132,663	13,001	(90.2%)
Total Rental Fleet	207,648	18,025	(91.3%)
C Government Fleet			
Car	3,806	510	(86.6%)
Truck & SUV	22,956	9,802	(57.3%)
Total Government Fleet	26,762	10,312	(61.5%)
Total Fleet			
A Commercial Fleet	76,666	23,866	(68.9%)
B Rental	207,648	18,025	(91.3%)
C Government	26,762	10,312	(61.5%)
Total Fleet	310,000	52,203	(83.2%)

- Fleet sales declined significantly in April and May data shows a continuing streak of significant monthly declines since the COVID-19 pandemic.
- Rental fleet is experiencing the most significant drop as travel ground to a halt for approximately 8 weeks and is expected to resume at a gradual pace for the rest of 2020.
- The bankruptcy filing by Hertz has also taken significant demand of rental cars from the market as it has negotiated to cancel 90% of remaining 2020 fleet orders.
- Avis has cancelled 80% of incoming rental vehicle orders in the U.S. for the remaining year.
- Fleet sales account for 17% of 2019 US SAAR.

Faculty

Daniel F. Gosch is a member of Dickinson Wright PLLC in Grand Rapids, Mich., and is group co-chair of its Bankruptcy, Insolvency & Creditors' Rights Practice. He has represented lenders, borrowers, companies and individuals for more than 36 years in almost every kind of debtor/creditor-related matter, and he has handled all manner of bankruptcy cases, documented and restructured loans and other transactions, helped clients buy and sell companies, litigated insolvency-related matters, and mediated disputes. Mr. Gosch has been counsel to numerous prominent national and regional banks, private-equity lenders and individual lenders in hundreds of loan restructurings, banking and bankruptcy-related matters throughout Michigan and in Arizona, Colorado, Delaware, Florida, Georgia, Kentucky, Illinois, Indiana, Iowa, Ohio, New York and Pennsylvania. He is a former member of a panel of private bankruptcy trustees for the U.S. Bankruptcy Court for the Eastern District of Michigan, and is a member of the Panel of Qualified Neutrals for the U.S. Bankruptcy Court for Western District of Michigan. Mr. Gosch has been listed in *Grand Rapids Magazine's* Top Lawyers in Bankruptcy and Creditor/Debtor Rights Law for 2019, *The Best Lawyers in America* for Bankruptcy and Creditor/Debtor Rights Law and Banking Law each year since 2011, and in *Michigan Super Lawyers* each year since 2007, and he is rated AV by Martindale-Hubbell. He received his B.A. in 1981 from the University of Iowa and his J.D. with distinction in 1983 from the University of Iowa College of Law.

Hon. John T. Gregg is a U.S. Bankruptcy Judge for the Western District of Michigan in Grand Rapids, appointed on July 17, 2014. Previously, he was a partner with the law firm of Barnes & Thornburg LLP, where he focused on corporate restructuring, bankruptcy and other insolvency matters. Judge Gregg is a frequent writer and speaker on bankruptcy and other commercial issues. He has written and co-edited numerous treatises and articles for various publications, including *Collier Guide to Chapter 11*, published by LexisNexis; *Strategies for Secured Creditors in Workouts and Foreclosures*, published by ALI-ABA; *Issues for Suppliers and Customers of Financially Troubled Auto Suppliers* and *Interrupted! Understanding Bankruptcy's Effects on Manufacturing Supply Chains*, both published by ABI; *Michigan Security Interests in Personal Property*, published by the Institute for Continuing Legal Education; *Handling Consumer and Small Business Bankruptcies in Michigan* and *Receiverships in Michigan*, published by the Institute for Continuing Legal Education. Judge Gregg is a member of the American Law Institute and serves on the Board of Contributing Editors for the *Norton Bankruptcy Law Adviser*. He received his B.A. in 1996 from the University of Michigan and his J.D. in 2002 from DePaul University College of Law.

Stephen M. Gross is a member of McDonald Hopkins LLC in Detroit and co-chairs its Business Restructuring Department. He also chairs its Automotive Practice Group and was the original managing partner of the firm's Detroit office. For more than 35 years, Mr. Gross has been extensively involved in business restructuring matters, corporate acquisitions and divestitures, especially in the automotive industry, other manufacturing businesses and large regional franchisees. He has represented business debtors ranging in size from small businesses to large, mid-market and multi-

national auto suppliers in successful restructurings and sales. He also has acted as counsel to many of these clients as they grew and expanded after becoming profitably reorganized. Prior to joining McDonald Hopkins, Mr. Gross was the managing partner and founder of Lindahl Gross Lievois. He has authored articles on restructuring issues and has lectured on various restructuring matters. Mr. Gross received his B.A. from the University of Michigan at Ann Arbor in 1980 and his J.D. from Wayne State University in 1983.

Richard E. Kruger is a partner with Jaffe Raitt Heuer & Weiss in Southfield, Mich., and is an attorney in its Finance, Insolvency & Reorganization, and Mergers & Acquisitions practice groups. He has a national practice focusing on both transactional and litigation aspects of bankruptcy law, debtor and creditor rights, workouts, corporate, and financing transactions. Mr. Kruger's client representations include original equipment manufacturers, borrowers, debtors, secured parties, landlords, purchasers, sellers, receivers, avoidance defendants and unsecured creditors' committees. His strategy and expertise span a diverse list of industries and business sectors. Mr. Kruger was listed as a *Super Lawyers* "Rising Star" for 2011-12, as well as a *dbusiness* "Top Lawyer" for 2012. He received his B.A. from Michigan State University and his J.D. with honors from Chicago-Kent College of Law.

Alicia B. Masse founded Alderney Advisors in 2013, a business advisory firm in Southfield, Mich., that focuses on providing financial and strategic solutions for stakeholders in high-risk, high-stakes and challenging situations. In its third year, Alderney was selected to support its automotive OEM clients in one of the largest global recalls in history, providing global coordinating and financial advisory services. Ms. Masse has led more than 100 distressed engagements. Prior to founding Alderney, she served as the Midwest Restructuring Leader and Global Automotive Supplier Risk Network Leader for EY, where she created a global restructuring network of EY practitioners, allowing response to global clients with global supply risk issues within 24 hours of engagement, spanning the U.S., China, Europe and Canada. Ms. Masse's early career began in auditing at Arthur Andersen, with significant experience at Ford Motor Co. Finance and BBK, a boutique restructuring firm serving the automotive industry. She received her M.B.A. in finance and strategy from the University of Michigan.

Hon. Phillip J. Shefferly is Chief Judge of the U.S. Bankruptcy Court for the Eastern District of Michigan in Detroit, initially appointed as bankruptcy judge in 2003 and as chief judge in 2009. Prior to taking the bench, Judge Shefferly worked in private practice, focusing on business reorganizations and chapter 11 cases. Judge Shefferly has trial and litigation experience in bankruptcy courts, federal courts and state courts, and he is a Fellow in the American College of Bankruptcy. He is also a frequent writer and speaker for ABI, the Federal Bar Association and the Consumer Bankruptcy Association. A Fellow in the American College of Bankruptcy, Judge Shefferly received his B.A. from the University of Michigan with high distinction and his J.D. *magna cum laude* from Wayne State University Law School.