

Presentation to Detroit CFA Society

US Automotive

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Presentation Outline

- **US auto sales outlook**
- **US market share outlook**
- **Europe auto sales outlook**
- **Global auto sales outlook**
- **Historical sector valuations**
- **GM – Buy Thesis**
- **VC – Buy Thesis**
- **Ford – Buy Thesis**
- **Auto dealers – Sell Thesis**
- **Questions**

2013 SAAR 15.5m; 2014 Forecast 16.0m

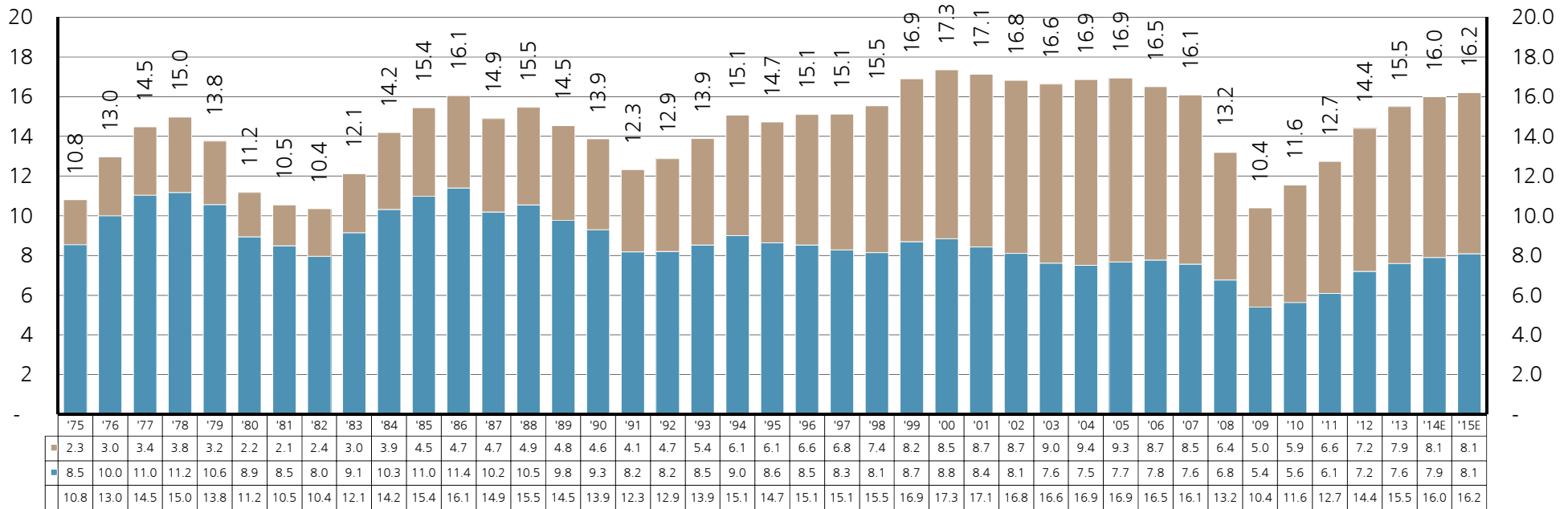
We forecast 2014 SAAR of 16.0m and 2015 SAAR of 16.2m

Our 2014 forecast implies ~3% y/y growth, slower than the ~11% CAGR over the last 4 years

Our forecast is consistent with UBS econometric model forecast

- U of M Index of Consumer Confidence (79% correlation)
- Used Vehicle Pricing (45% correlation)

US Auto Sales History and Forecast



Source: Wards, UBS



Slowing Growth, But Still Positive

Mixed Leading Indicators

- Manheim used car prices near record highs and likely fall with higher lease returns
- U of M solid but only slightly above historic average
- Interest rates likely rise

Underlying fundamentals still solid

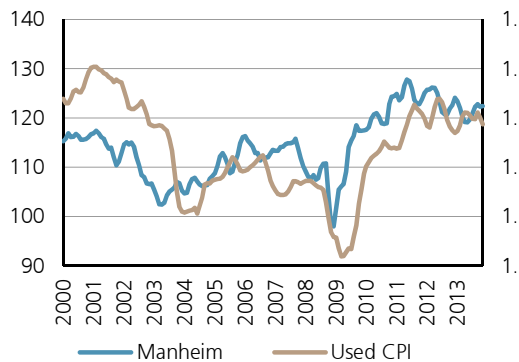
- Still recovering from worst decline in 70 years (2009)
- Record vehicle age
- Housing & employment support growth
- Only approaching "normalized" level of sales

Auto Industry Indicators	Last Update	Current	Prior Month	Prior Year	M/M	Y/Y
US Sales Trend	Dec-13	15.3	16.30	15.2	↓	↑
U of M Conditions for Buying New	Dec-13	134	120	130	↑	↑
Manheim Index	Nov-13	122.4	122.3	122.6	↑	↓
Used CPI	Nov-13	1.487	1.501	1.475	↓	↑
UBS Survey Financing	Dec-13	15%	16.0%	22%	↓	↓
Incentives (Autodata)	Nov-13	2,667	2,574	2,490	↑	↑
Average New FICO Score	Nov-13	631	635	655	↓	↓

Macro Indicators	Last Update	Current	Prior Month	Prior Year	M/M	Y/Y
Unemployment	Nov-13	7.0%	7.3%	7.8%	↓	↓
Housing Starts	Nov-13	1.091	0.889	0.842	↑	↑

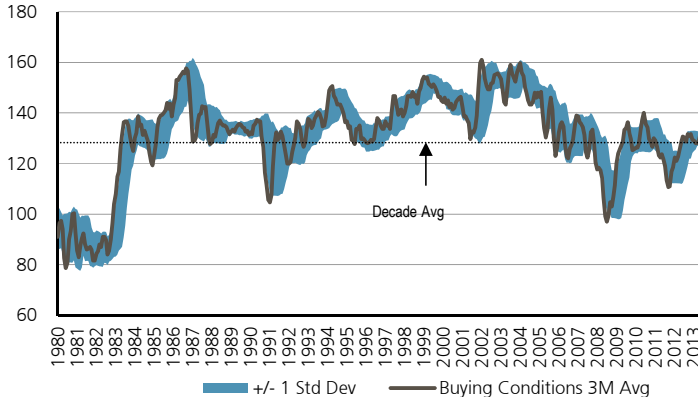
Source: FactSet, CNW, AutoData, UBS

Manheim Index vs. Used CPI



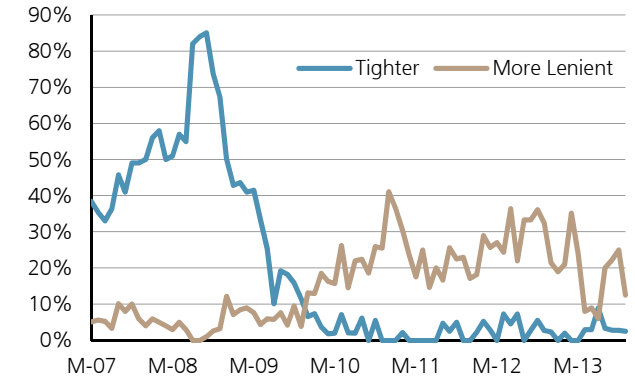
Source: Manheim Consulting, US Department of Labor, UBS

U of M Index: Conditions for Buying New Vehicle



Source: U of M Consumer Survey

Auto Credit Availability



Source: UBS Dealer Survey

Normalized Demand 16m to 17m

Bottoms up analysis points to "normalized" demand of 16m to 17m

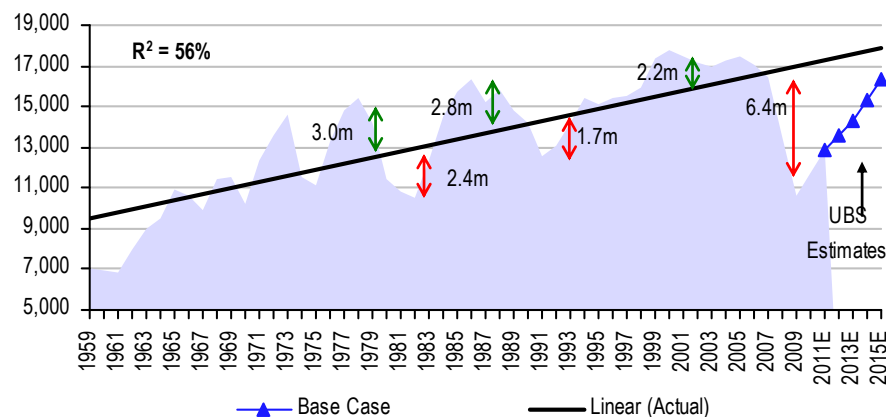
Normalized US Sales Outlook

Source	2010	2011	2012	2013E	2014E	2015E
Scrappage	11.6	12.8	12.2	13.1	13.2	13.3
New Drivers	2.3	1.5	2.3	2.4	2.4	2.4
Density	1.3	1.2	1.3	1.3	1.3	1.3
"Normal" US Sales	15.1	15.6	15.8	16.7	16.8	17.0
US Sales Estimate	11.7	12.7	14.5	15.5	16.0	16.2
Ending Density	1.22	1.21	1.21	1.21	1.21	1.21

Source: Polk, Dept of Transportation, UBS

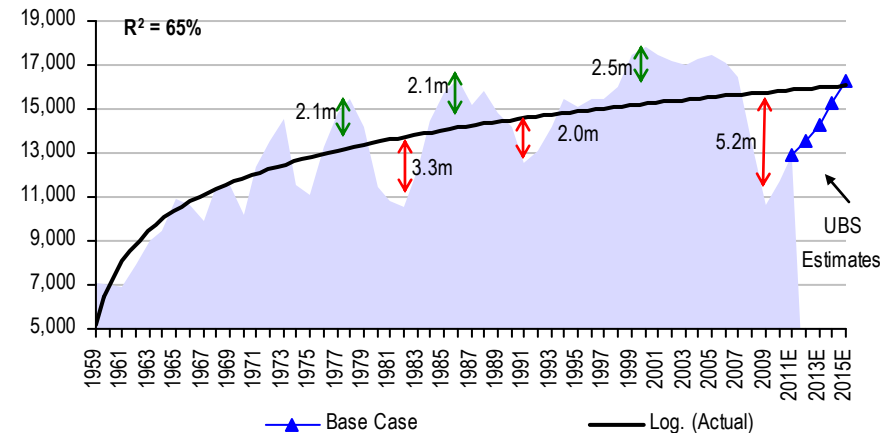
Logarithmic trend (more appropriate vs. Linear) also suggests a 16m "normalized" demand

Auto Sales Trend - Linear



Source: Wards, UBS

Auto Sales Trend - Logarithmic/Growth



Source: Wards, UBS

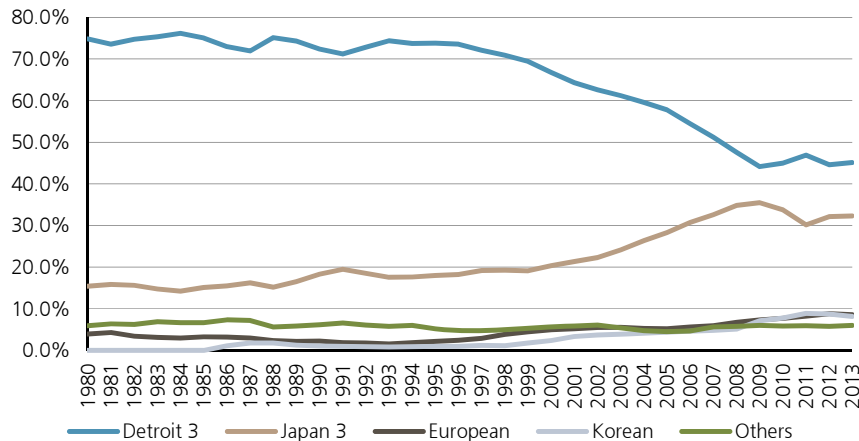
US Market Share

US Light Vehicle Market Share

Assembler	2008	2009	2010	2011	2012	2012	2013				YTD	Month
						YTD	YTD	12/12	11/13	12/13	y/y	y/y
GM	22.4%	19.9%	19.1%	19.7%	18.0%	18.0%	17.9%	18.2%	17.1%	17.0%	0 bp	-120 bp
Ford	14.2%	15.3%	16.5%	16.6%	15.3%	15.3%	15.7%	15.5%	15.0%	15.6%	40 bp	20 bp
Toyota	16.8%	17.0%	15.3%	12.9%	14.4%	14.4%	14.4%	14.4%	14.4%	14.1%	0 bp	-30 bp
Honda	10.8%	11.1%	10.6%	9.0%	9.9%	9.9%	9.8%	9.8%	9.4%	10.0%	0 bp	20 bp
Nissan	7.2%	7.4%	7.9%	8.2%	7.9%	7.9%	8.0%	7.3%	8.6%	8.1%	10 bp	80 bp
Japan 3	34.8%	35.5%	33.8%	30.1%	32.2%	32.2%	32.3%	31.6%	32.4%	32.2%	10 bp	70 bp
Hyundai / Kia	5.1%	7.1%	7.7%	8.9%	8.7%	8.7%	8.1%	7.3%	8.2%	7.1%	-60 bp	-20 bp
VW / Audi	2.4%	2.8%	3.1%	3.5%	4.0%	4.0%	3.6%	4.4%	3.6%	3.8%	-40 bp	-60 bp
BMW	2.3%	2.3%	2.3%	2.4%	2.4%	2.4%	2.4%	3.2%	2.9%	3.3%	0 bp	0 bp
Porsche	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.2%	0.3%	0.2%	0 bp	0 bp
Daimler	1.9%	2.0%	2.0%	2.1%	2.1%	2.1%	2.2%	2.3%	3.0%	2.7%	10 bp	40 bp
Mazda	2.0%	2.0%	2.0%	2.0%	1.9%	1.9%	1.8%	2.0%	1.7%	1.7%	-10 bp	-30 bp
Mitsubishi	0.7%	0.5%	0.5%	0.6%	0.4%	0.4%	0.4%	0.3%	0.5%	0.5%	0 bp	20 bp
Others	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	0 bp	0 bp

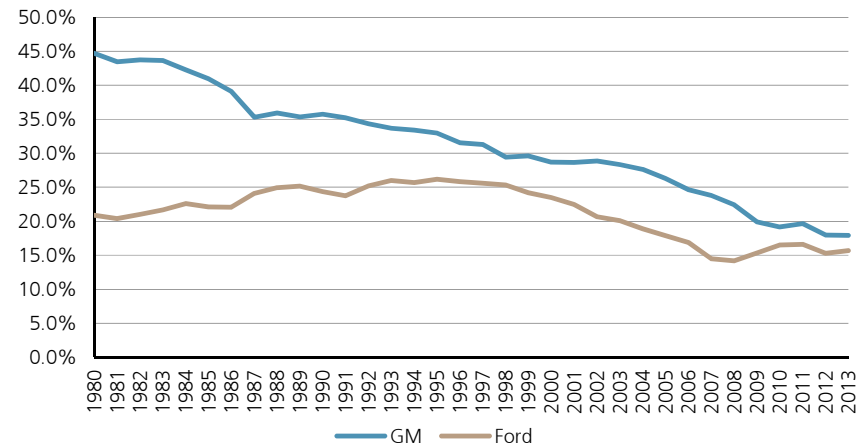
Source: Wards

US market long-term share evolution



— Detroit 3 — Japan 3 — European — Korean — Others

GM and Ford long-term market shares



— GM — Ford



Source: Wards

Source: Wards

GM: New vehicle launches in the last 12 months

GM: Vehicle Launch Summary Q1 2013 to Q1 2014

Brand	Product	Segment	QTR	%
Cadillac	CTS	Mid-Size Car	Q3 2013	2%
Cadillac	CTS	Mid-Size Sports Car	Q1 2014	0%
Cadillac	ELR	Compact Car	Q4 2013	New
Cadillac	Escalade	Full-Size SUV	Q1 2014	1%
Cadillac	Escalade ESV	Full-Size SUV	Q1 2014	0%
Chevrolet	Corvette	Compact Sports Car	Q3 2013	1%
Chevrolet	Silverado	Full-Size Pickup	Q2 2013	13%
Chevrolet	Silverado HD	Full-Size Pickup	Q1 2014	4%
Chevrolet	Suburban	Full-Size SUV	Q1 2014	2%
Chevrolet	Tahoe	Full-Size SUV	Q1 2014	3%
GMC	Sierra	Full-Size Pickup	Q2 2013	5%
GMC	Sierra HD	Full-Size Pickup	Q1 2014	1%
GMC	Yukon	Full-Size SUV	Q1 2014	1%
GMC	Yukon XL	Full-Size SUV	Q1 2014	1%
Total General Motors				33%

Source: Global Insight, UBS estimates

Ford: New vehicle launches in the last 12 months

Ford: Vehicle Launch Summary Q1 2013 to Q1 2014

Brand	Product	Segment	QTR	%
Ford	Transit	Full-Size Van	Q1 2014	5%
Ford	Transit Connect	Compact Van	Q4 2013	2%
Lincoln	MKC	Compact CUV	Q4 2013	0%
Total Ford				7%

Source: Global Insight, UBS estimates

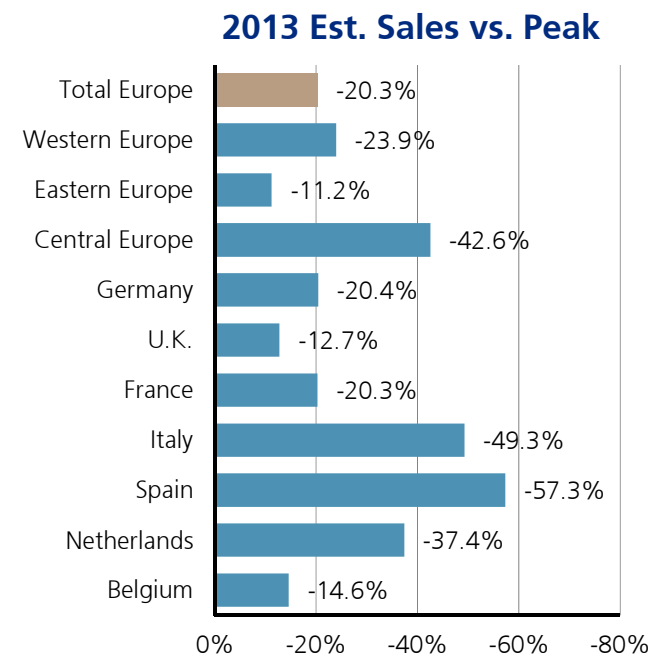
European Sales: Expect a Modest Recovery from Trough Levels

We forecast European auto sales to be up 3% in 2014

- W. European sales have started to stabilize at weak levels
- Modest rebound in Germany and U.K.
- Spain boosted by scrappage incentives; Italy likely to follow

Sales are still tracking ~20% below peak

- 2013 sales were a new trough
- 2013 est. sales of 17.8m well below peak of 22.3m
- Western and Central Europe recovery slower vs. Eastern Europe



Source: Global Insight, UBS

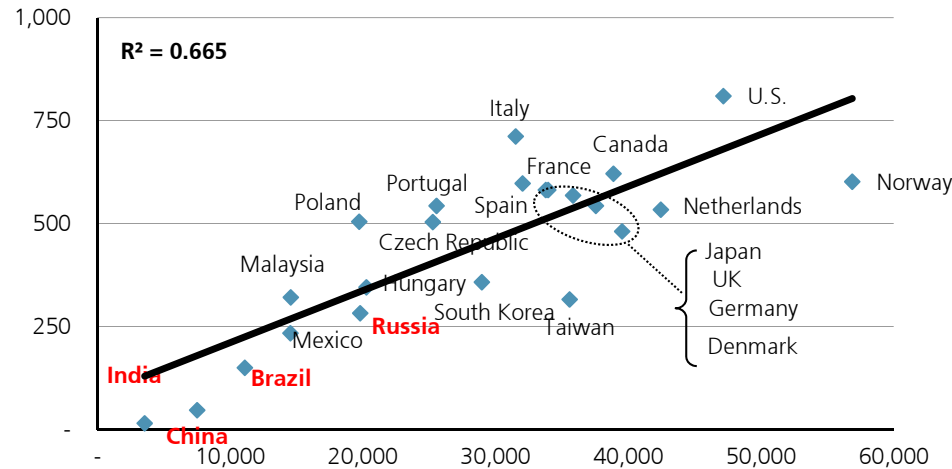
Europe Auto Sales History and Forecast

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Western Europe	16,187	15,956	16,433	16,479	16,699	16,839	15,653	14,899	14,470	14,433	13,153	12,797	13,113	13,730
Germany	3,421	3,418	3,457	3,519	3,666	3,371	3,314	3,974	3,113	3,414	3,309	3,163	3,313	3,425
France	2,550	2,390	2,421	2,487	2,441	2,527	2,510	2,676	2,669	2,634	2,283	2,135	2,186	2,342
Italy	2,566	2,451	2,487	2,455	2,568	2,740	2,384	2,342	2,145	1,939	1,519	1,401	1,434	1,598
Spain	1,601	1,680	1,853	1,917	1,910	1,892	1,328	1,060	1,099	915	778	815	848	928
UK	2,834	2,887	2,902	2,769	2,677	2,749	2,430	2,188	2,261	2,208	2,292	2,531	2,557	2,562
Eastern Europe	2,558	3,066	3,724	3,929	4,503	5,497	5,877	3,368	3,948	4,892	5,073	4,989	5,184	5,393
Russia	1,136	1,235	1,462	1,565	1,995	2,622	2,940	1,477	1,910	2,690	2,949	2,793	2,902	2,930
Total Europe	18,745	19,022	20,157	20,407	21,202	22,335	21,530	18,267	18,418	19,325	18,226	17,786	18,297	19,123

Source: Global Insight, UBS

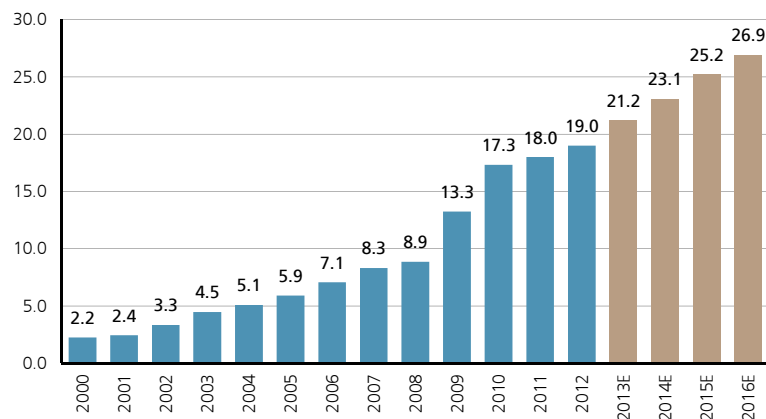
Emerging markets sales outlook

Vehicle density (per 000) vs. GDP per capita (\$)



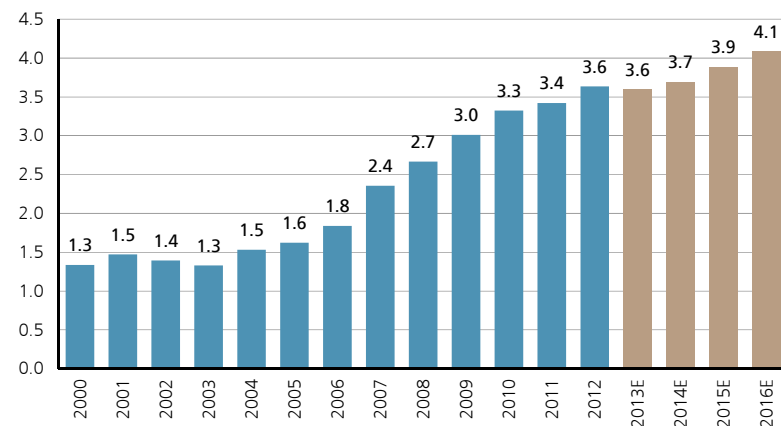
Source: Bloomberg, CEIC, Government Statistics Departments; Based on 2010 data

Greater China Auto Sales (million units)



Source: Global Insight, UBS

Brazil Auto Sales (million units)



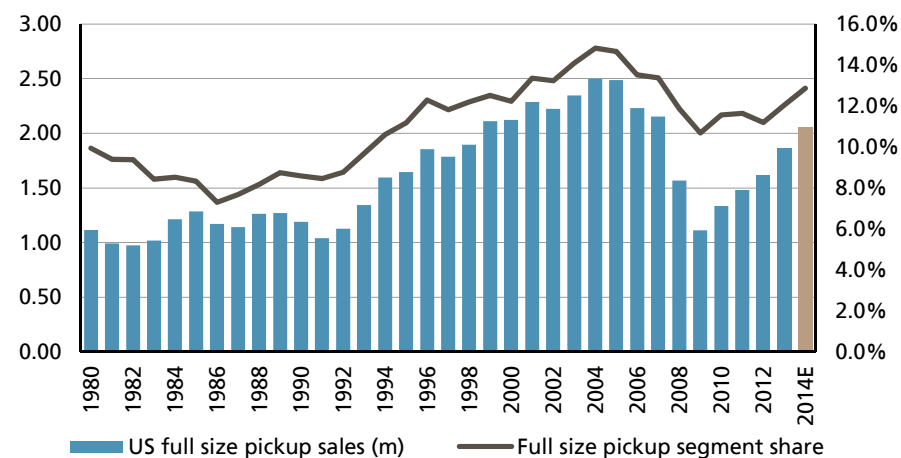
Source: Global Insight, UBS

GM: Buy Rating, \$50 Price Target

Solid recovery in the US full size pickup market

- We forecast 2014 full size pickup sales of 2.1m (up 10% y/y) & segment share of 12.9% (up 90 bps y/y)
- Segment share still well below peak level of 14.8%
- Strength driven by a housing recovery & shale growth

US full size pickup sales and segment share

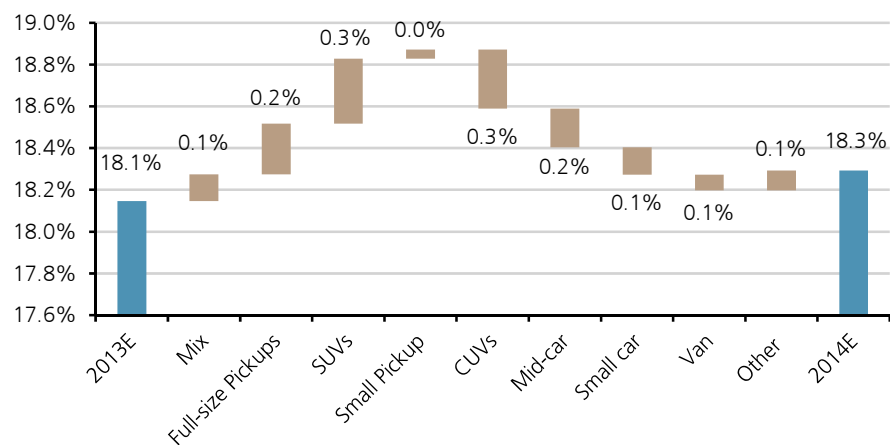


Source: Ward's, UBS

GM's pickup share to benefit from K2XX launch

- Full benefit of K2XX pickup launch will kick-in in Q1 14
- K2XX based heavy duty pickups and full size SUV launch in H1 14 to provide further share boost
- High segment brand loyalty; historically each launch from GM or Ford has resulted in a 3-7% share swing

GM 2013 to 2014 Market Share Analysis



Source: Ward's, UBS

GM: Buy Rating, \$50 Price Target

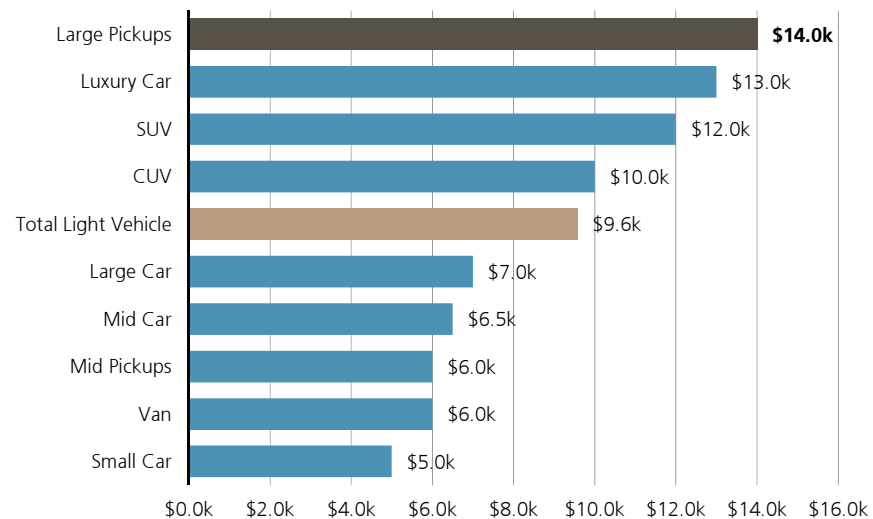
Higher pickup mix will drive margin expansion

- We forecast GM's 2014 NA EBIT margins to be 9.3%, up 130 bps y/y
- Strong pickup mix will drive 2014 margins as pickups have the highest pre-tax profit contribution

Returning cash to shareholders

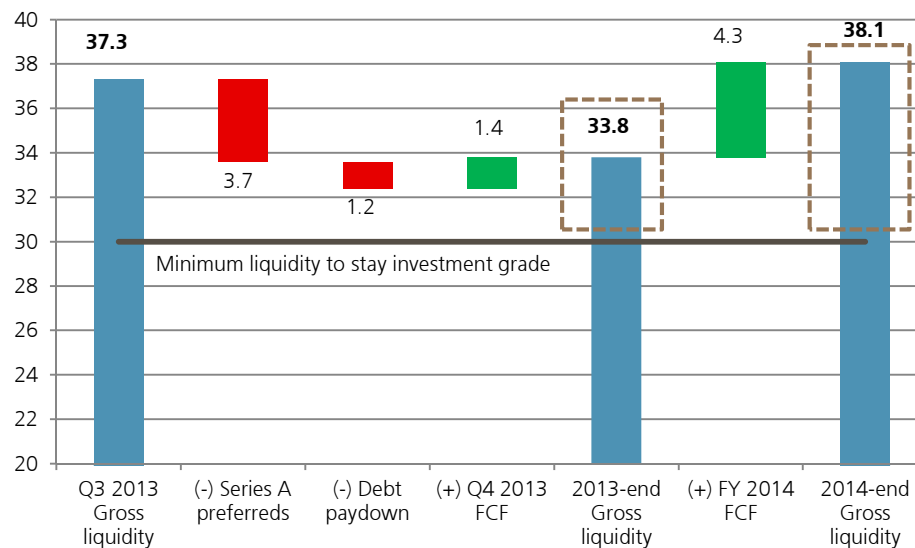
- Management has a positive tone on returning cash to shareholders through share buybacks and/or dividends
- We estimate that GM will have excess liquidity of over \$2.5bn ending Q3 2013.
- Completed over \$5bn repurchase from UST in 2012; Canadian government & UAW VEBA still own shares.

2013: Estimated incremental profit per unit by type



Source: UBS estimates

GM: Estimated excess liquidity (\$bn)



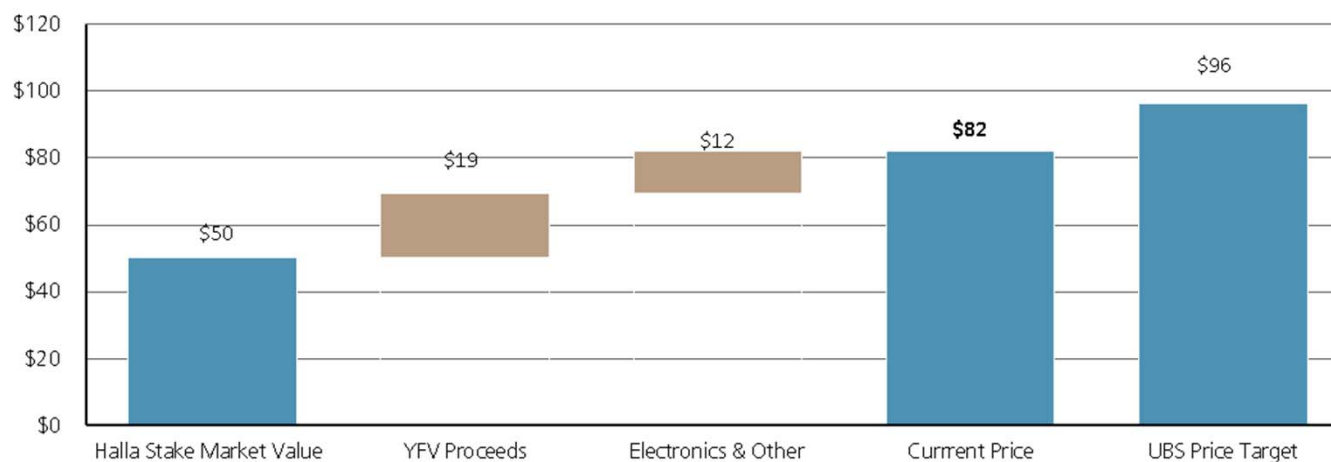
Source: UBS estimates

Visteon: Buy Rating, \$96 Price Target

Compelling sum-of-the-parts value

- VC shares do not give full credit to the appreciation and further upside in Halla stock price
- VC electronics is not fully reflected in the stock price

Analysis of Visteon Share Price



Source: Company reports, FactSet, UBS estimates; Note: Halla's current price of KRW 35,700 implies ~\$50 per share in value to VC
UBS Korea analyst has a Halla price target of KRW 44,000 implying ~\$62 per share in value to VC

Breakup still possible but not urgent

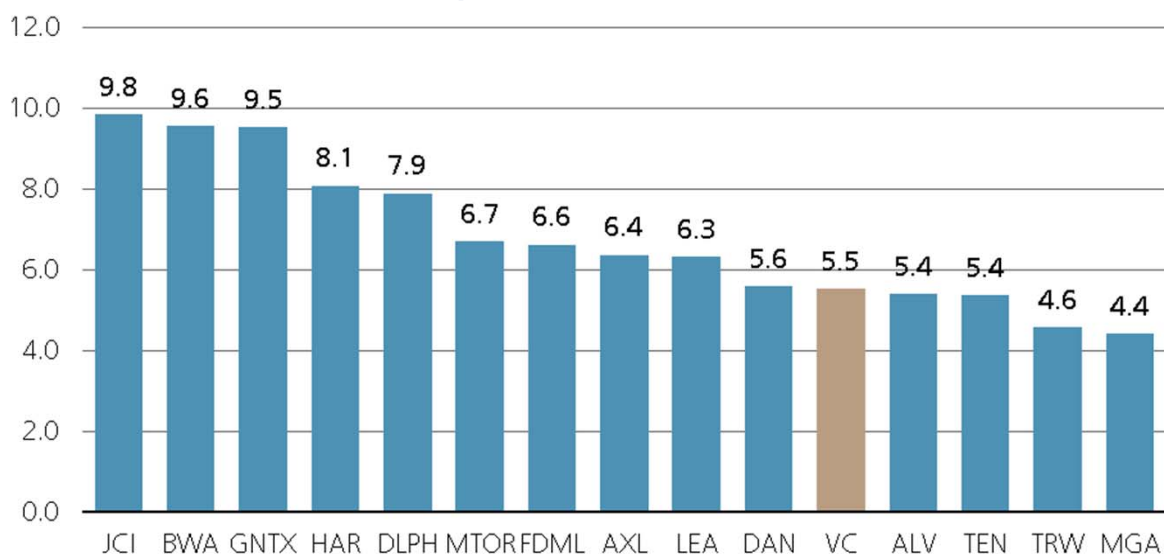
- VC will likely divest interiors by mid year
- Focus to be on growth in climate & electronics

Visteon: Buy Rating, \$96 Price Target

Discount to peers

- VC is trading below the supplier average despite the expected growth in Electronics & Climate
- We believe the discount will narrow as the company highlights its growth outlook

Visteon 2014E EV/EBITDA vs. peers



Note: EV and EBITDA is adjusted for unfunded pension and OPEB liabilities and pension and OPEB expense.

Source: Company reports, UBS estimates, FactSet

Ford: Buy Rating, \$18 Price Target

2015 to be a record year after a transitional 2014

- Ford to launch its pickup in H214, full benefits by Q115
- NA margin to rise from 8.6% in 2014 to 10.9% in 2015
- European margins to return to profitability in 2015 as the benefits from Genk, Belgium plant kick-in
- S. American margins to as currency issues subside

Ford: Regional pre-tax profit summary

	2011	2012	2013E	2014E	2015E
North America	6,191	8,343	8,543	7,505	9,948
	8.3%	10.4%	9.6%	8.6%	10.9%
South America	861	213	6	33	540
	7.8%	2.1%	0.1%	0.3%	5.0%
Europe	(27)	(1,753)	(1,535)	(1,103)	323
	-0.1%	-6.6%	-5.5%	-3.7%	1.0%
Asia Pacific	(92)	(77)	452	564	725
	-1.1%	-0.8%	3.9%	4.5%	5.5%
Other/Other Automotive	(540)	(470)	(701)	(838)	(660)
Total Autos	6,393	6,256	6,764	6,163	10,876
Financial Services	2,431	1,710	1,752	1,886	2,029
Pretax Income:	8,824	7,966	8,517	8,049	12,905
Tax	(2,635)	(2,371)	(2,040)	(2,433)	(4,097)
Min Interest	(9)	1	(4)	(8)	(12)
Net Income	6,180	5,596	6,473	5,608	8,796
EPS	\$ 1.51	\$ 1.41	\$ 1.60	\$ 1.40	\$ 2.20

Source: Company data, UBS estimates

Product momentum to intensify over few years

- Ford plans to launch 23 vehicles in 2014
- The new full size pickup will offer more aluminum, significantly lowering weight and raising fuel economy
- Ford is adding 3 mfg. facilities - 2 China & 1 in Brazil
- Consistently gaining share in China from a low base

Bearish on Dealers: AN (Sell, \$49 price target) & SAH (Sell, \$21 price target)

Potential risk from Consumer Finance Protection Bureau (CFPB)

- CFPB's March bulletin highlights discriminatory dealer markups
- Potential actions include flat fees, flat markups, and caps on markups
- We estimate that potential CFPB actions put ~33% of dealer profits, on average, at risk

Dealer Financing F&I Risk Analysis

	AN	SAH	PAG	GPI	ABG	LAD	Avg
F&I % of Sales	4%	3%	2%	3%	4%	3%	3%
F&I % of Gross Profit	23%	20%	16%	23%	22%	21%	21%
Financing %	33%	40%	35% ¹	35%	30%	35% ¹	35%
% US Sales	100%	100%	64%	94%	100%	100%	93%
Gross Profit % from Financing F&I	7.6%	8.1%	3.6%	7.7%	6.5%	7.3%	6.8%
Financing F&I Gross Profit	188.5	100.2	72.3	85.5	50.0	39.3	
Financing F&I SG&A Estimate (20% Gross)	-37.7	-20.0	-14.5	-17.1	-10.0	-7.9	
Financing F&I Operating Income	150.8	80.1	57.8	68.4	40.0	31.4	
Financing F&I % of Total Operating Income	23%	33%	16%	30%	22%	21%	24%
Financing F&I Net Income	92.6	49.6	38.9	42.6	25.0	19.4	
Financing F&I % of Total Net Income	29%	49%	20%	43%	30%	24%	33%

¹ Company did not provide an estimates, this is based on industry average of 35%

Source: Company data, UBS ests.

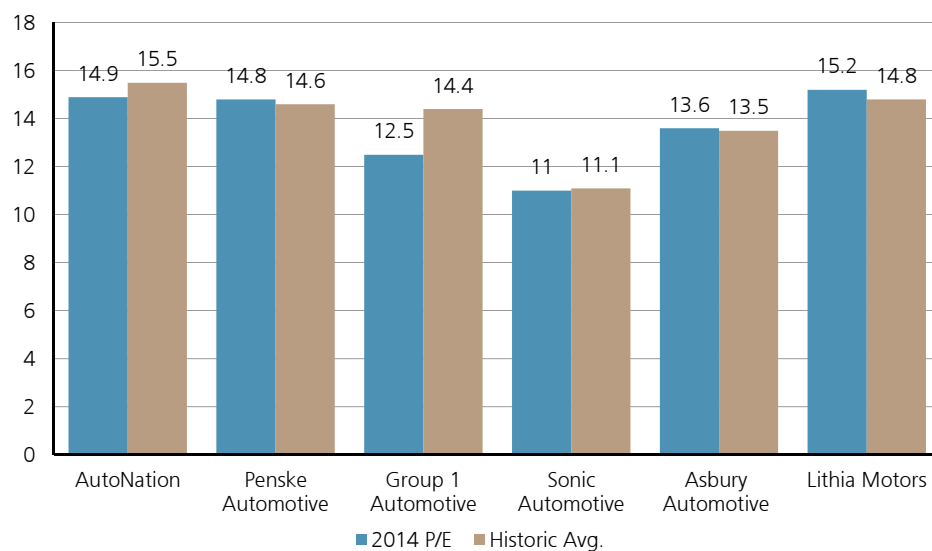
Analysis published on 5/21/2013 in our report titled: *Peak Valuations Despite CFPB Risk*

Bearish on Dealers: AN (Sell, \$49 price target) & SAH (Sell, \$21 price target)

Dealer valuations remain high relative to historical range

- Despite significant earnings risk from CFPB, dealer valuations are at or near all time highs
- Rising interest rates could further taper earnings as dealer finance inventory through variable rate debt
- Investors have been moving away from defensive names to names with higher operating leverage

Auto dealer P/E ratios on 2014 consensus ests.



Source: Company data, Factset, UBS

Thank you

Any Questions?

Background



Colin Langan, CFA, CPA US Automotive Analyst

Colin Langan is a director in the general industrials group of UBS Investment Research covering the US automotive sector. He joined UBS in 2005 as an associate analyst in this sector. Earlier in his career, Mr. Langan was a senior associate at Deloitte & Touche. He holds an MBA in Finance from Columbia Business School and a BS in Accounting from the University of Notre Dame. Mr. Langan is a CFA charterholder and a certified public accountant.

Risk Statement

The global auto industry is highly cyclical, vulnerable to sudden shifts in consumer sentiment, employment, interest rates, and general economic activity. Auto companies have high fixed costs, and therefore earnings and cash flows can dramatically change with sudden shifts in vehicle demand. Parts suppliers are further exposed to customer pricing pressure, shifts in OEM market share, volatile production schedules, and unforeseen changes in technology. Through its building efficiency segment, JCI is also exposed to non-residential and residential construction. JCI is also exposed to lead, steel, resin, foam chemicals, copper, and fuel costs. BWA is heavily dependant on the European market, and in particular diesel engines. In addition, BWA's drivetrain segment supplies transfer cases for SUVs in the US market. Consequently, the continued shift toward cars from light trucks and SUVs will negatively impact this segment. BWA also is exposed to steel and nickel pricing. LEA is exposed to fluctuations in the price of steel, polypropylene, and copper. Both Visteon and Dana mitigated a number of their former risks in bankruptcy and have emerged as much healthier and more streamlined businesses. Given the companies have corrected a large portion of their former operational and liquidity issues, we view the biggest near-term risks to be similar to those of their publicly traded supplier peers – including commodity exposure, OEM pricing pressures, and production schedule shifts. In addition to these end market risks as a supplier Meritor is also exposed to customer pricing pressures, commodity price risks (primarily steel), shifting OEM share and volatile OEM production schedules.

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UBS 12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	44%	36%
Neutral	FSR is between -6% and 6% of the MRA.	45%	35%
Sell	FSR is > 6% below the MRA.	11%	23%
UBS Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 December 2013.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Securities LLC: Colin Langan, CFA; Rahul Chadha.

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Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
AutoNation Inc. ¹⁶	AN.N	Sell	N/A	US\$49.17	08 Jan 2014
Ford Motor Co. ^{6a, 6b, 6c, 7, 16}	F.N	Buy	N/A	US\$15.54	08 Jan 2014
General Motors Company ^{2, 4, 6a, 6b, 6c, 7, 16}	GM.N	Buy	N/A	US\$40.42	08 Jan 2014
Sonic Automotive Inc. ¹⁶	SAH.N	Sell	N/A	US\$23.05	08 Jan 2014
Visteon Corp. ¹⁶	VC.N	Buy	N/A	US\$82.05	08 Jan 2014

Source: UBS. All prices as of local market close.

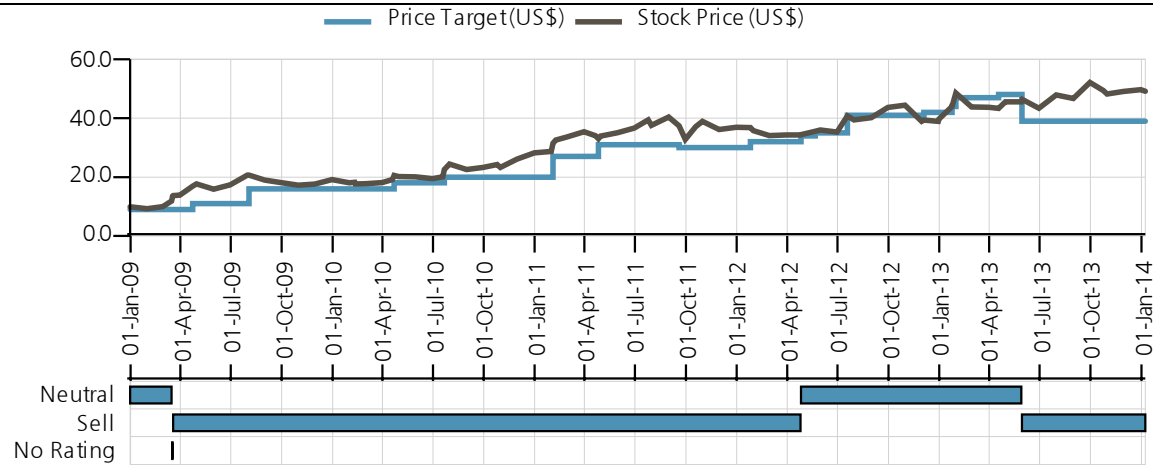
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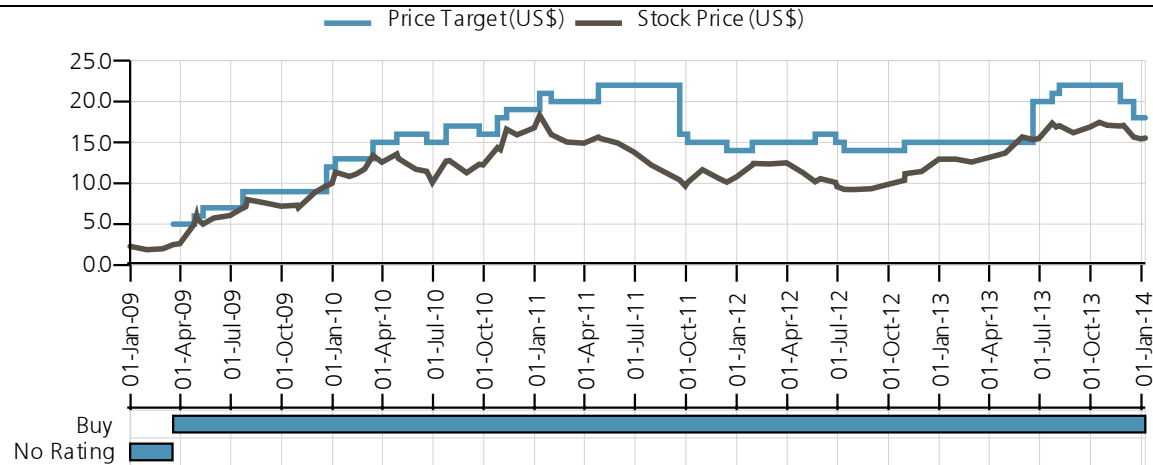
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AutoNation Inc. (US\$)



Source: UBS; as of 08 Jan 2014

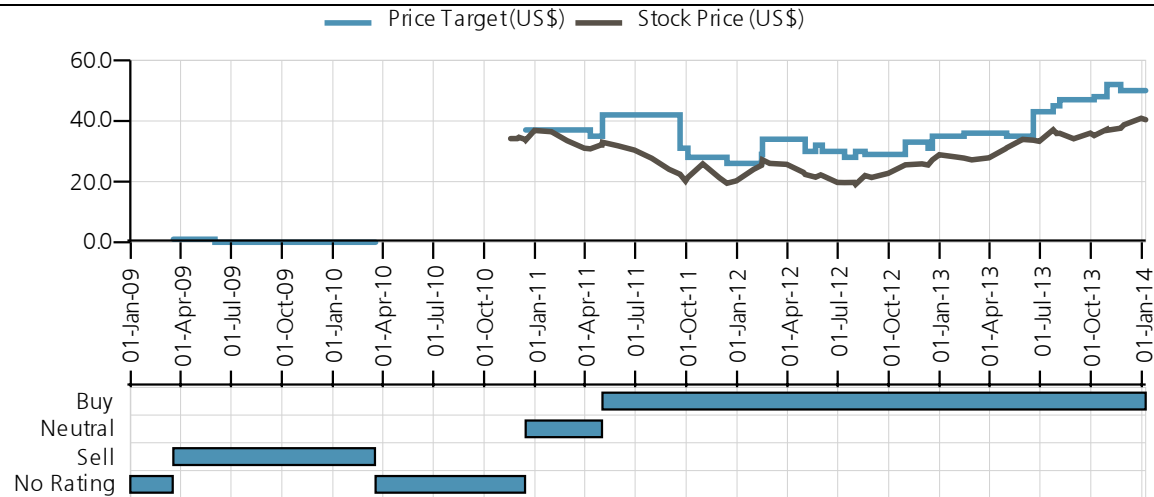
Ford Motor Co. (US\$)



Source: UBS; as of 08 Jan 2014

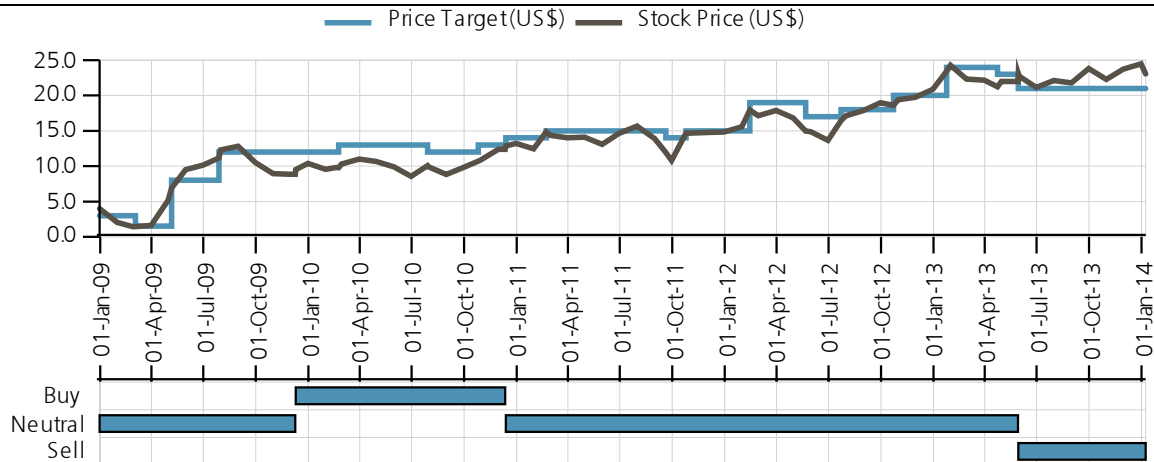
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General Motors Company (US\$)



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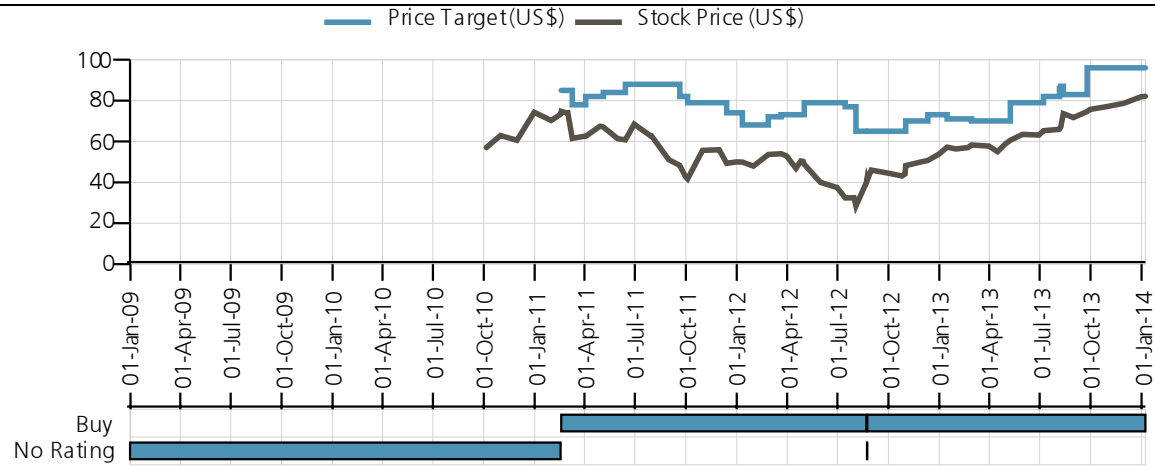
Sonic Automotive Inc. (US\$)



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Visteon Corp. (US\$)



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