The Heavy Duty Manufacturers Association

The Industry Voice of the
Commercial Vehicle Product Manufacturer

2017 HDMA Supplier Terms and Conditions Survey Report

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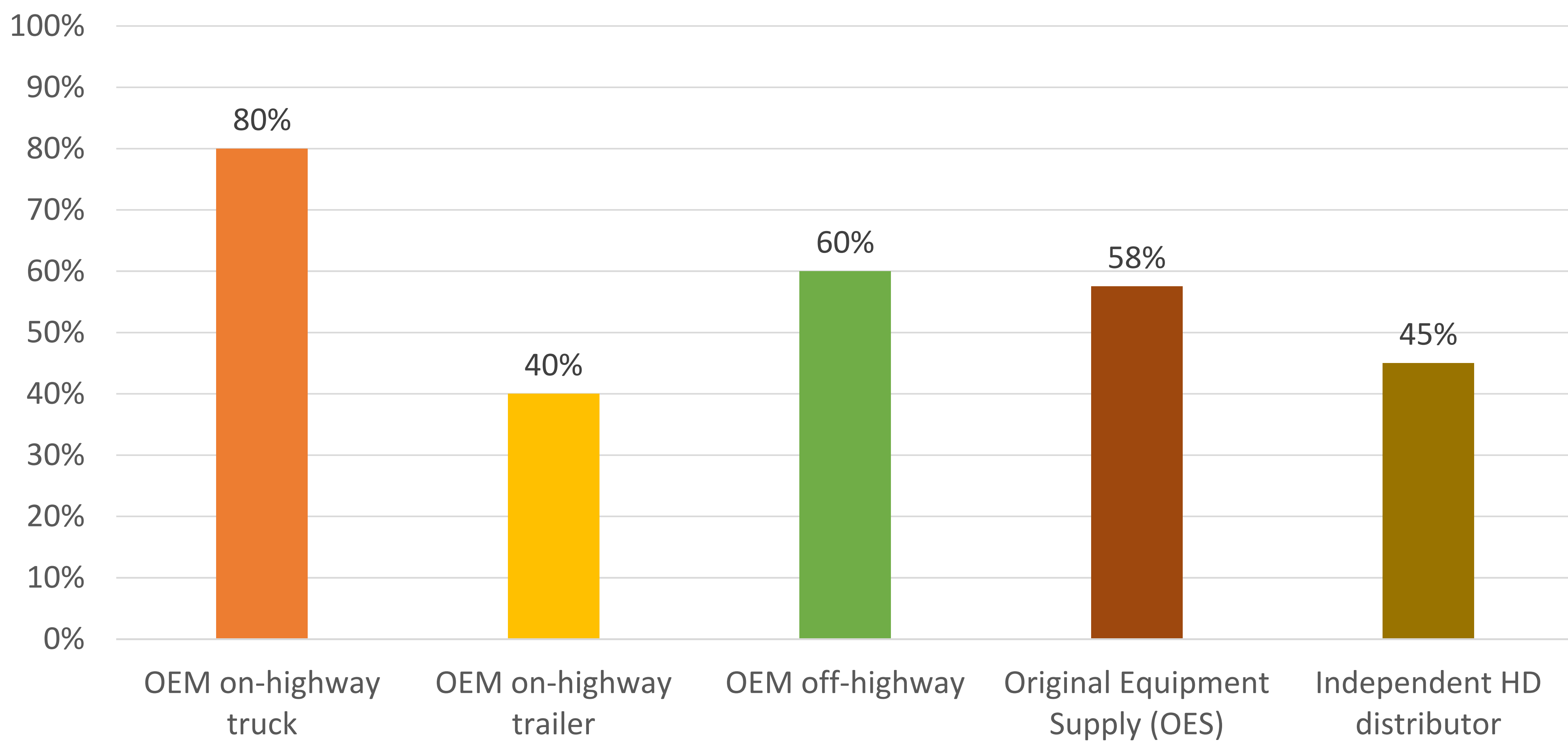
Introduction

HDMA Supplier Terms & Conditions Survey Report

- The survey was conducted in April of 2017 among HDMA members.
- The data represents responses from 42 unique corporate entities.
- Due to Department of Justice guidelines, 2016 data is reported.
- At the bottom of each slide there is a rectangular box indicating the market the data covers and a summary of 2014 and 2015 contract data (2015 and 2016 survey reports, respectively) for comparison.

DEMOGRAPHICS

Which markets do your company supply?



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Original Equipment Supply

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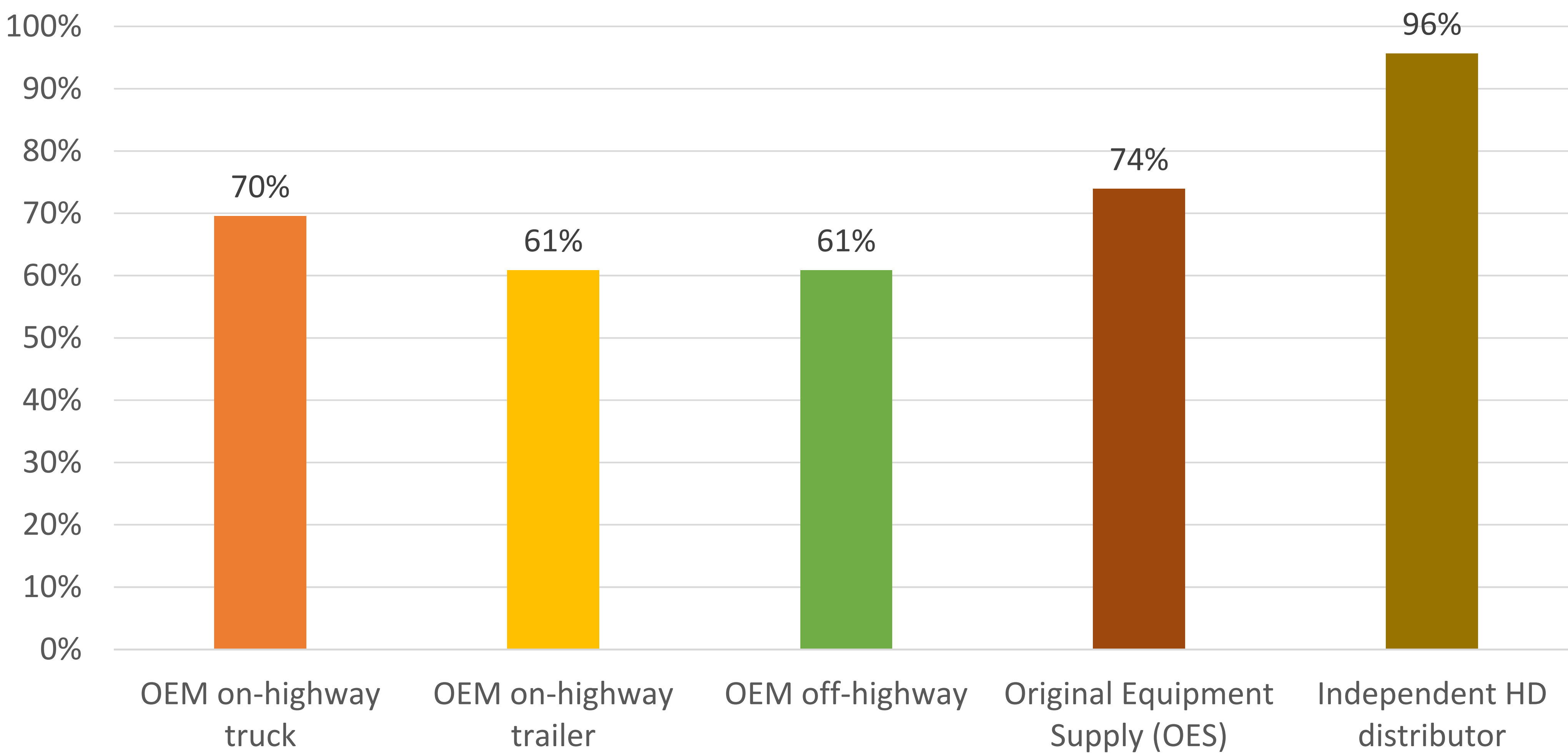
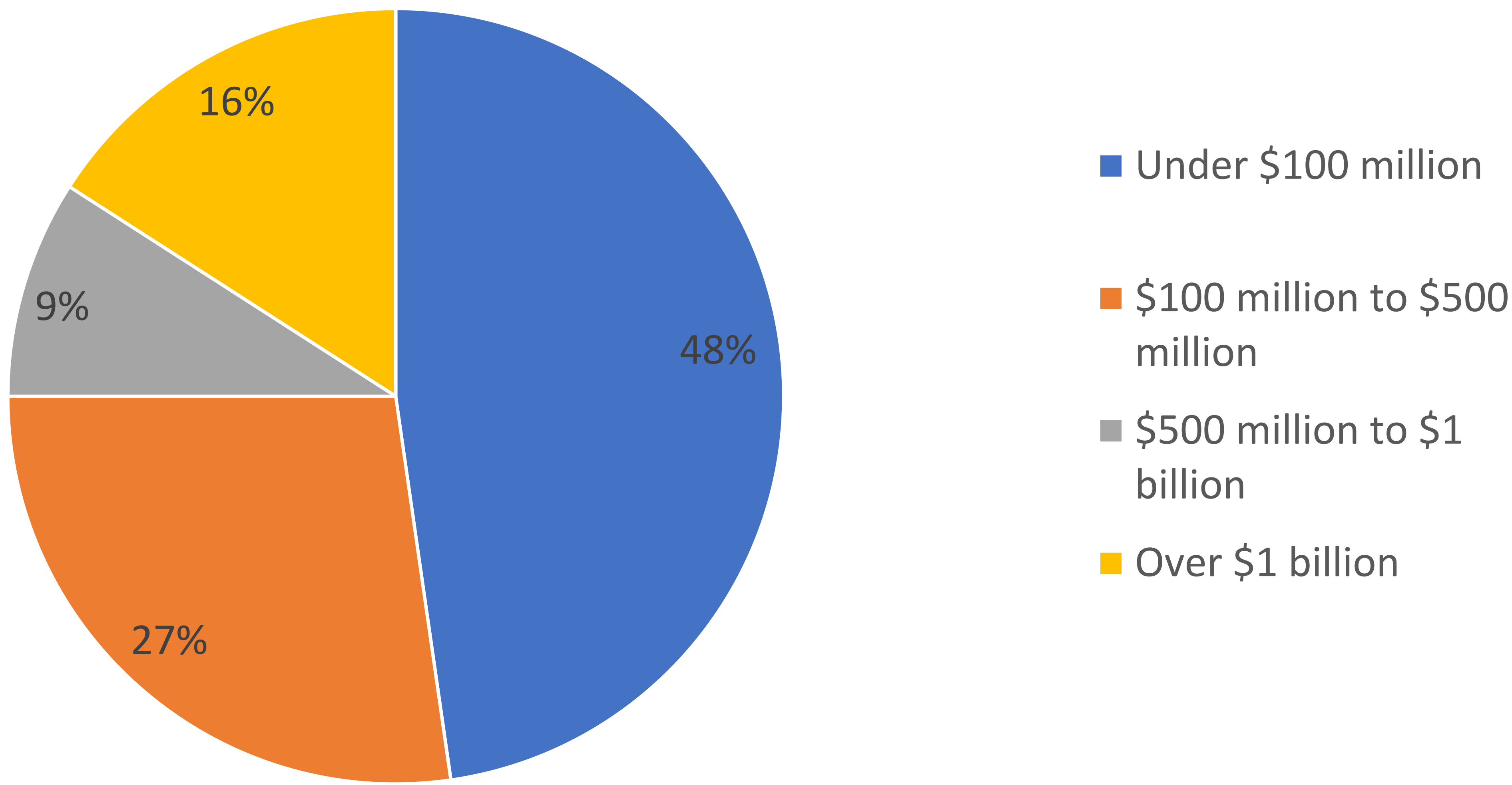
Which markets do your company supply?



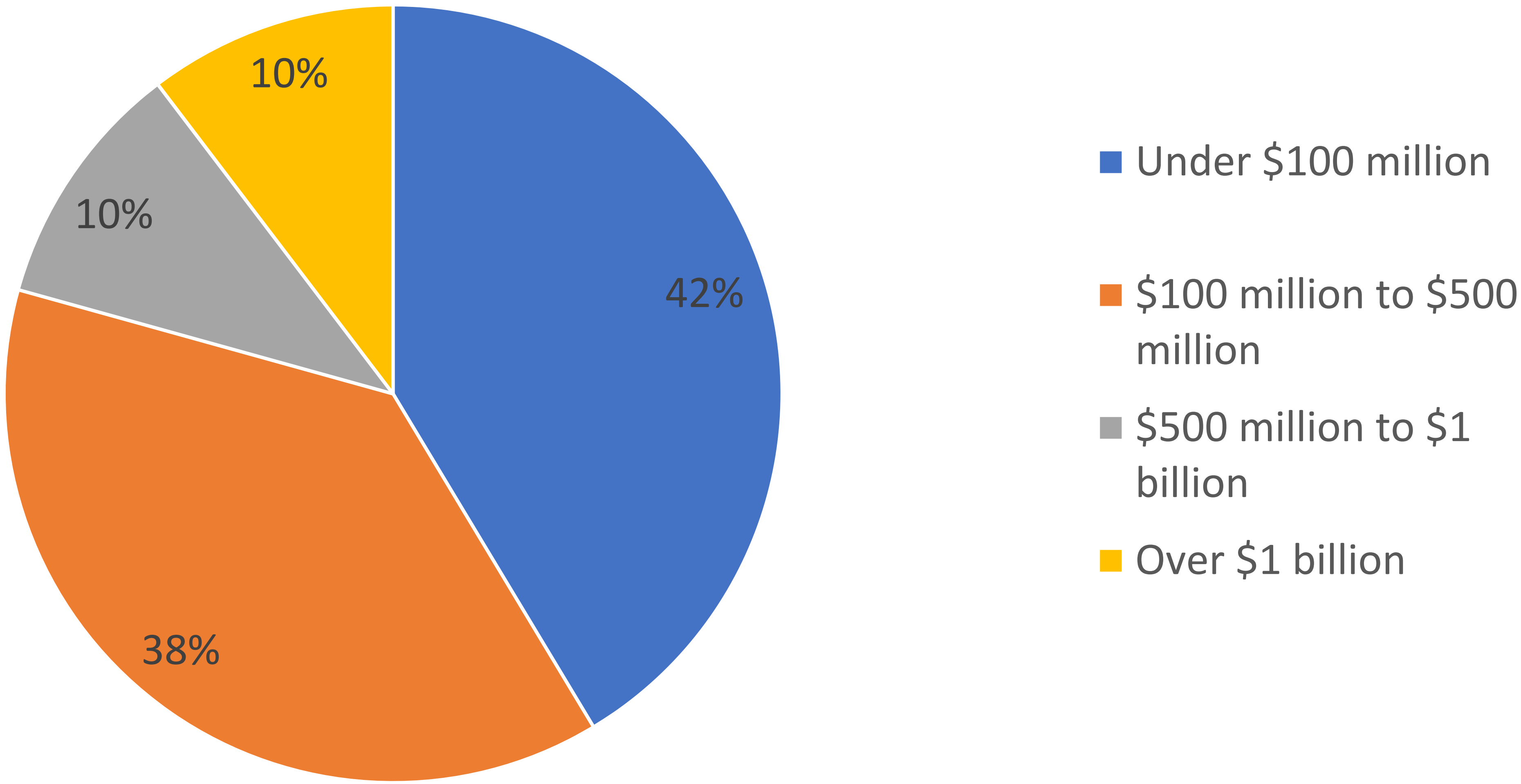
Aftermarket & OES Supply

What is your company's annual commercial vehicle supply revenue?



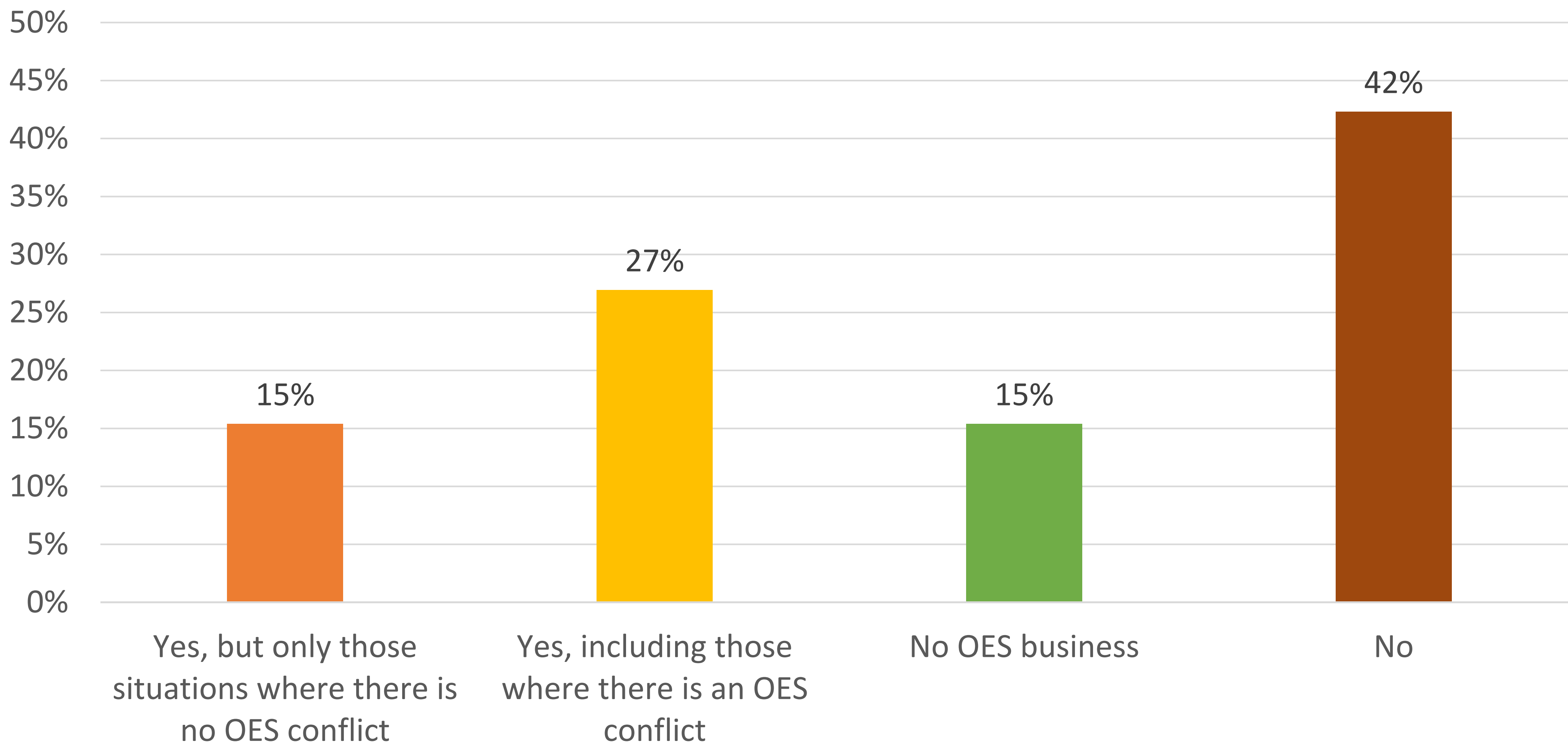
Original Equipment Supply

What is your company's annual commercial vehicle supply revenue?



Aftermarket & OES Supply

In 2016: did you bypass the OES and sell direct to dealers?



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Aftermarket & OES Supply

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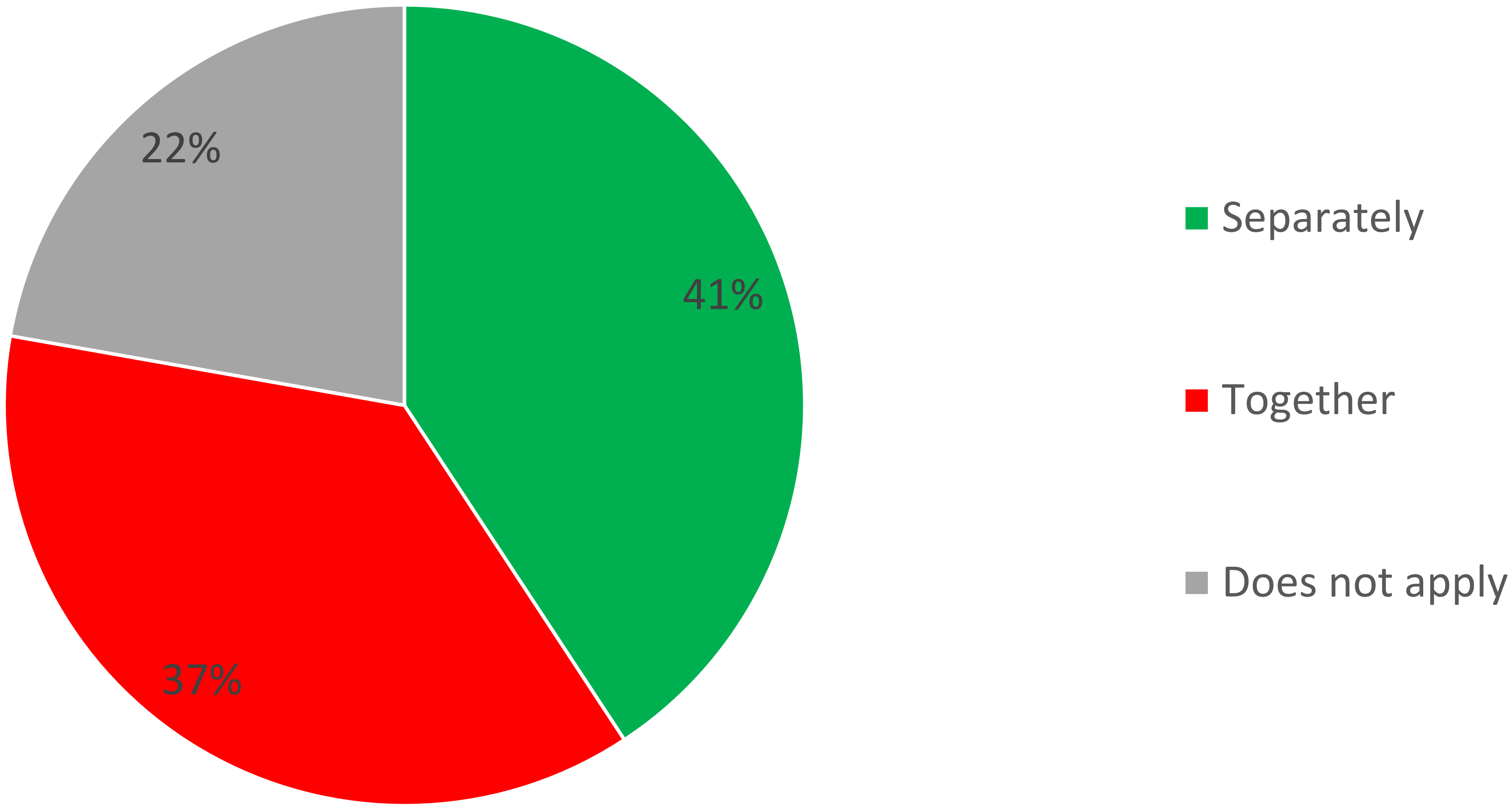
LTA CONSOLIDATION

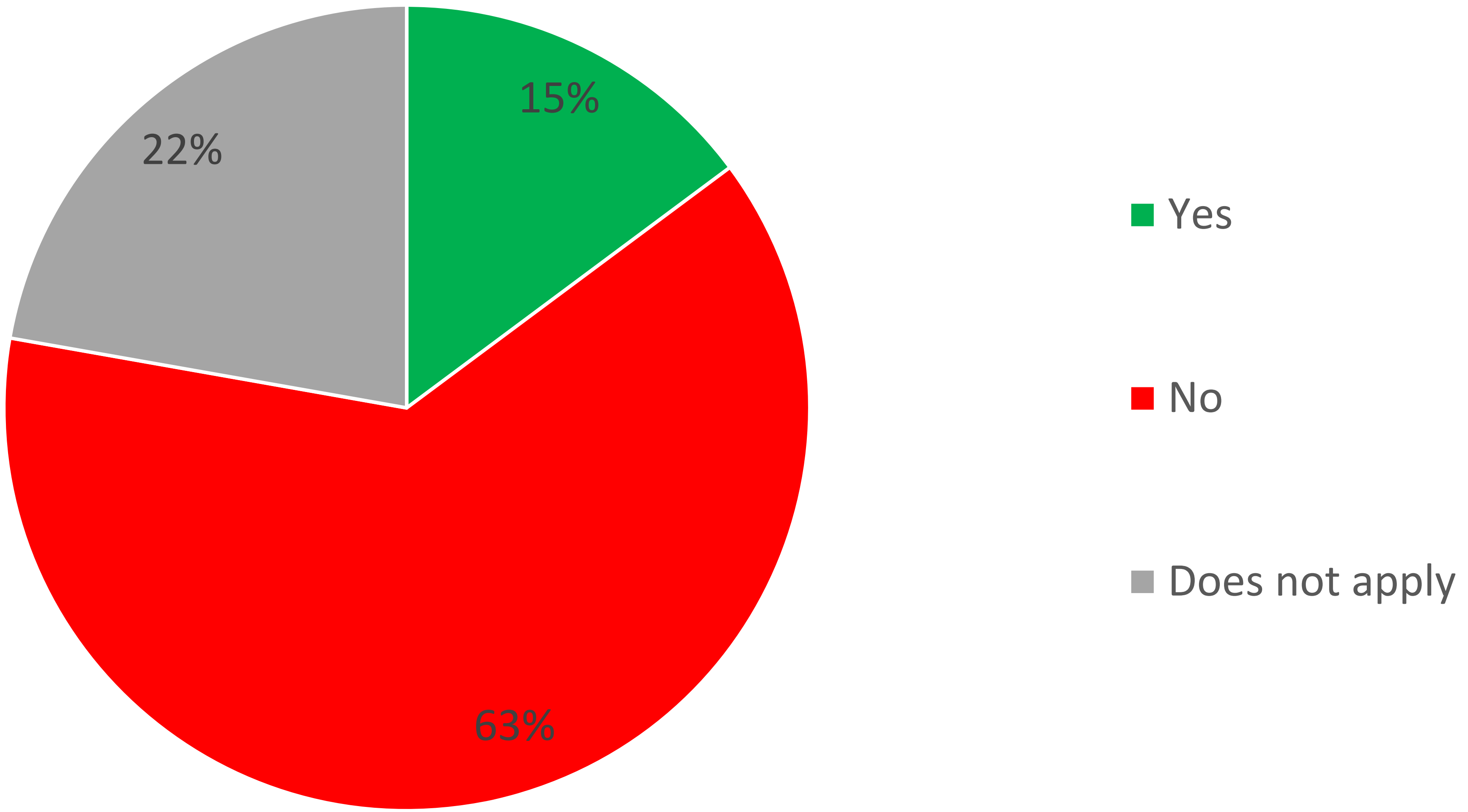
For the same component, were OEM and OES contracts negotiated separately or together?



Aftermarket & OES Supply

2014: Separately:57%, Together:43%
2015: Separately:57%, Together:43%

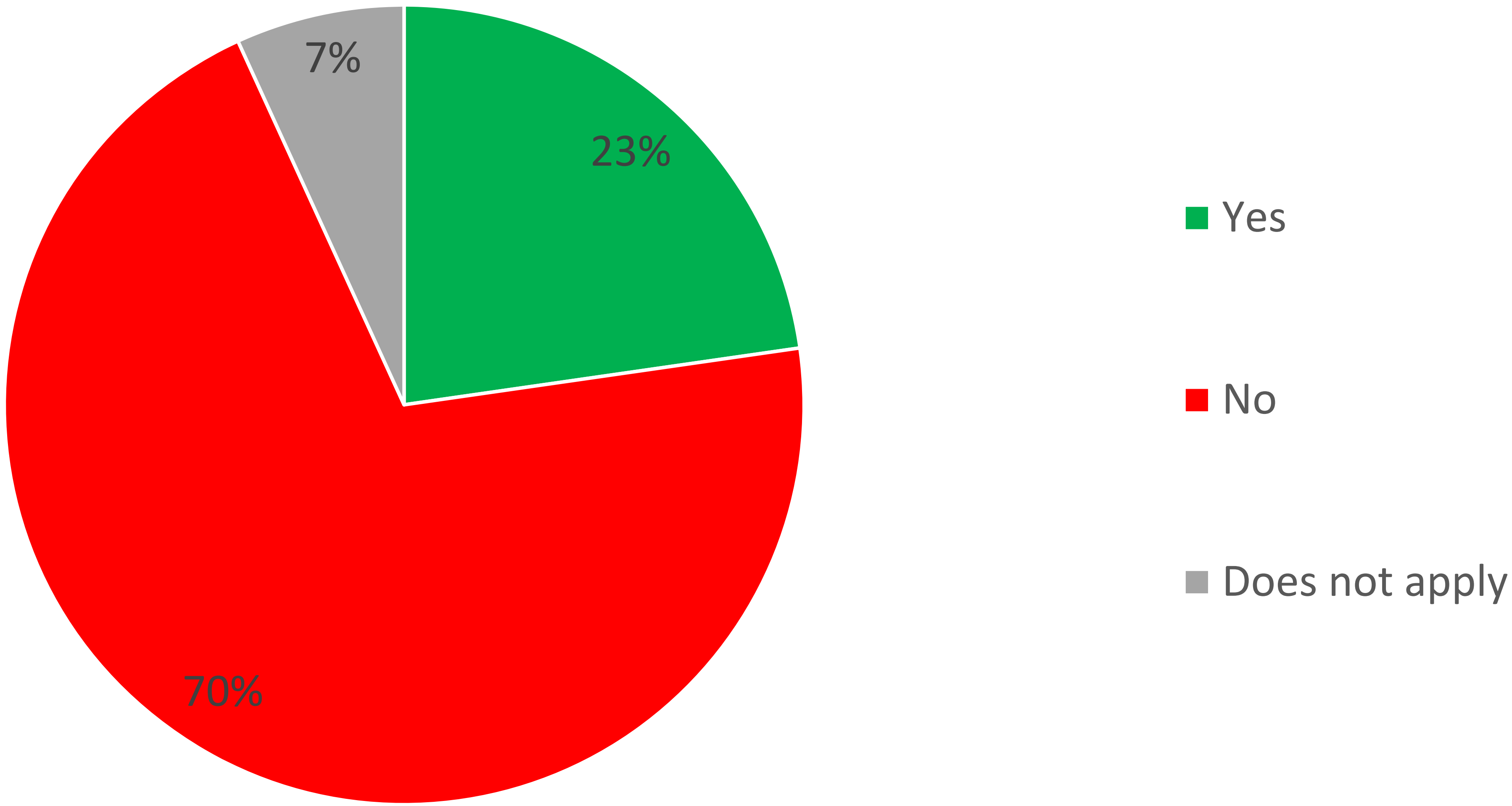
During 2016, did you receive requests to consolidate OEM and OES LTAs that were previously separate?



Aftermarket & OES Supply

2014: Yes:22%, No:69%, NA:9%
2015: Yes:23%, No:54%, NA:23%

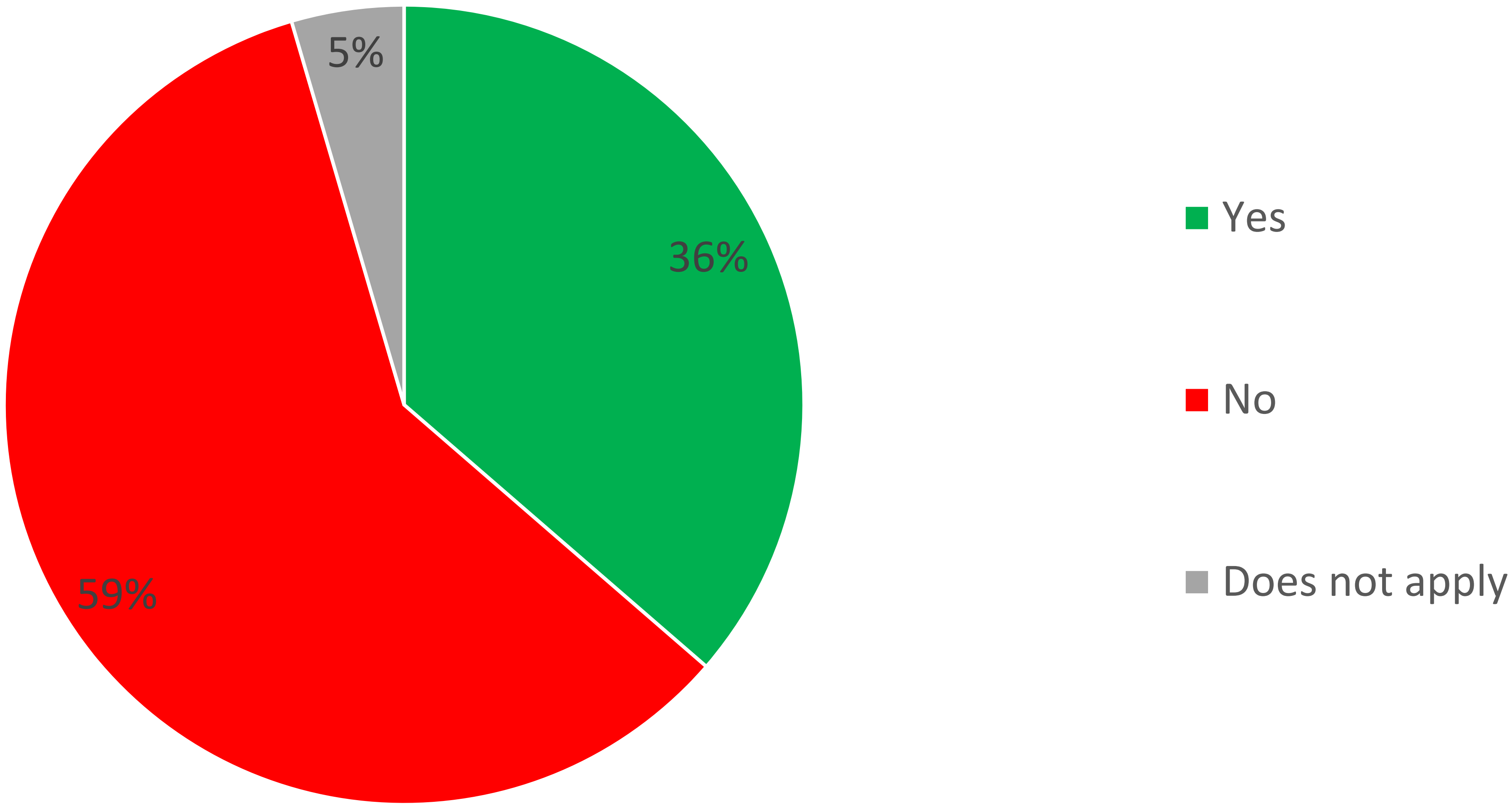
During 2016, did you receive requests to consolidate OEM LTAs for brands owned by the same parent that were previously separate?



Original Equipment Supply

2014: Yes:10%, No:74%, NA:16%
2015: Yes:22%, No:72%, NA:6%

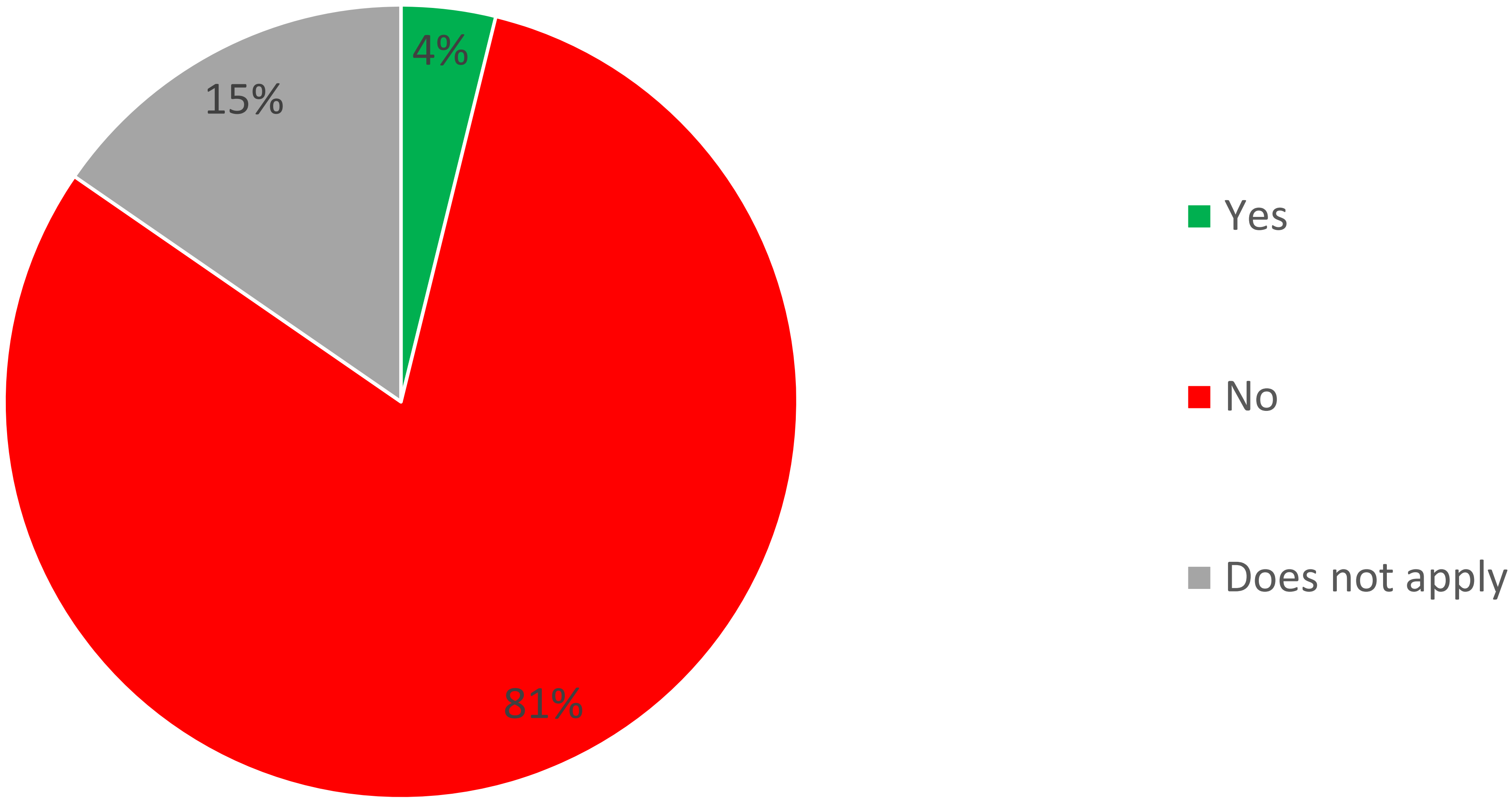
During 2016, did you receive from your OEM customers operating in different regions requests to consolidate OEM LTAs for different regions or countries that were previously separate?



Original Equipment Supply

2014: Yes:29%, No:52%, NA:19%
2015: Yes:38%, No:56%, NA:6%

During 2016, did you receive requests to consolidate OEM and OES LTAs that were previously separate?



Aftermarket & OES Supply

2014: Yes:9%, No:69%, NA:22%
2015: Yes:14%, No:57%, NA:29%

Please enter any comments on types of LTA consolidation demands and/or negotiations you have experienced during 2016.

Original Equipment Supply

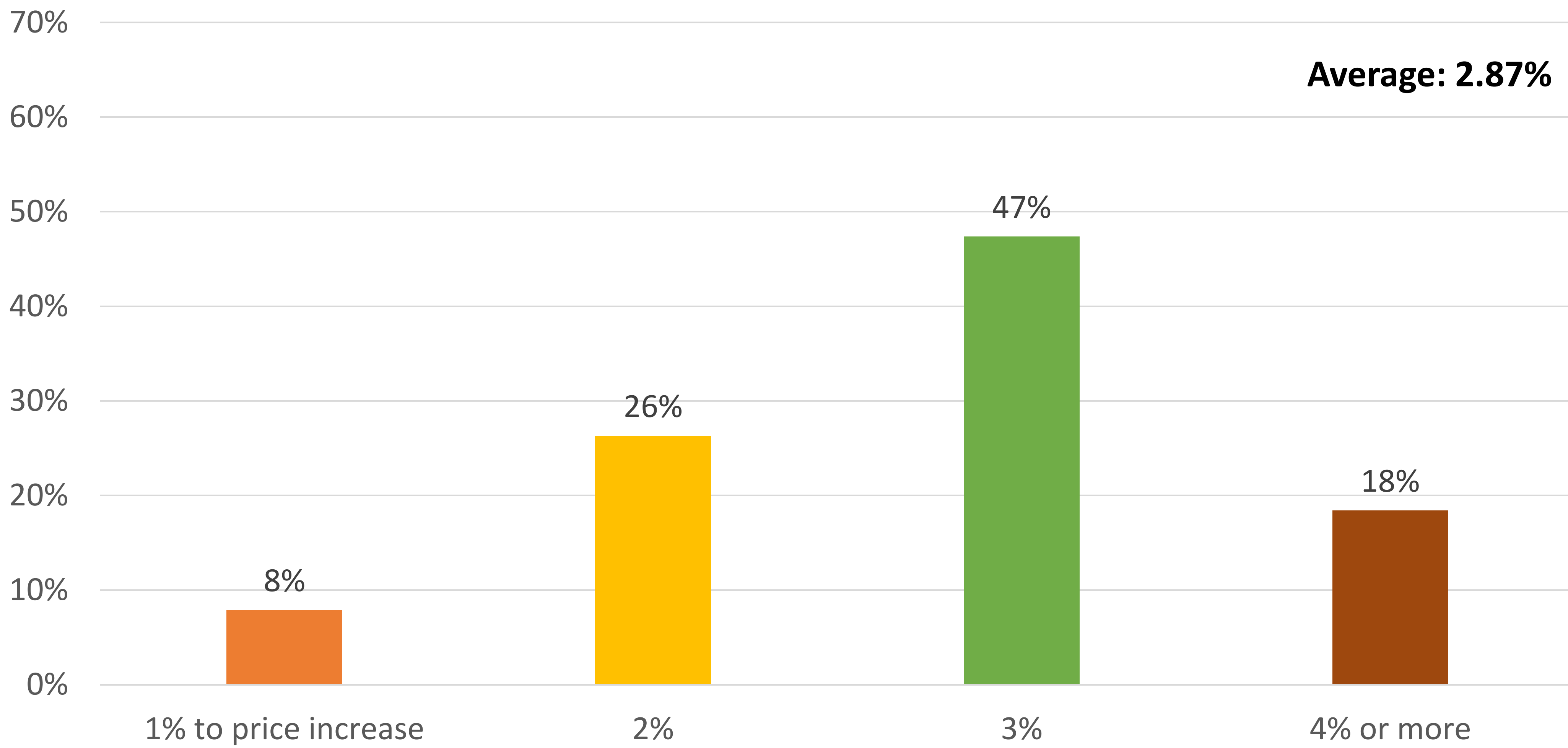
- A push for more global LTA's from certain truck OEMs.
- All truck OEM's have started consolidating / leveraging the business across regions
- Concessions on existing business in other parts of the world were requested in exchange for the award of new NA business
- Customer tried to use new business awards with "leverage" on existing LTA, seeking discounts.
- Many LTA demands from Tier 1 customers with global locations.
- The LTA's were already consolidated by brand/region prior to 2016 where they exist.
- This is an on going request from all on highway and off highway OEM's
- One OEM is requesting consistent global T & C vs. regional

Aftermarket & OES Supply

- Discussions only, no pressure to move to an LTA
- This really does not apply to us as we supply OE's 100% both for new production and for their aftermarket business. We do not typically go outside of the OE channel.

OE PRICE DOWNS

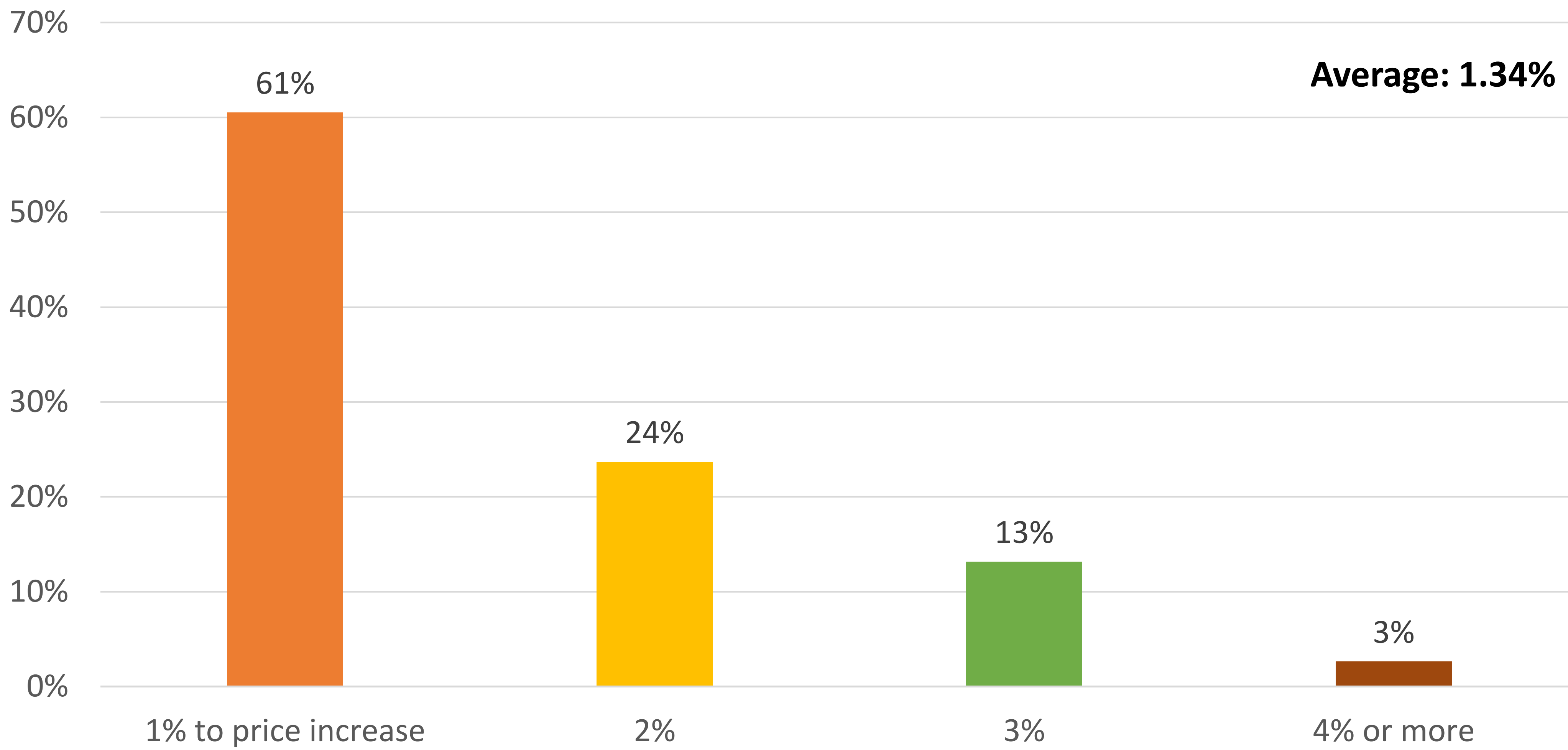
During 2016 what was the average amount of cost down/productivity price reductions requested?



Original Equipment Supply

2014: Average: 3.22%
2015: Average: 2.96%

During 2016 what was the average amount of cost down/productivity price reductions negotiated?



Original Equipment Supply

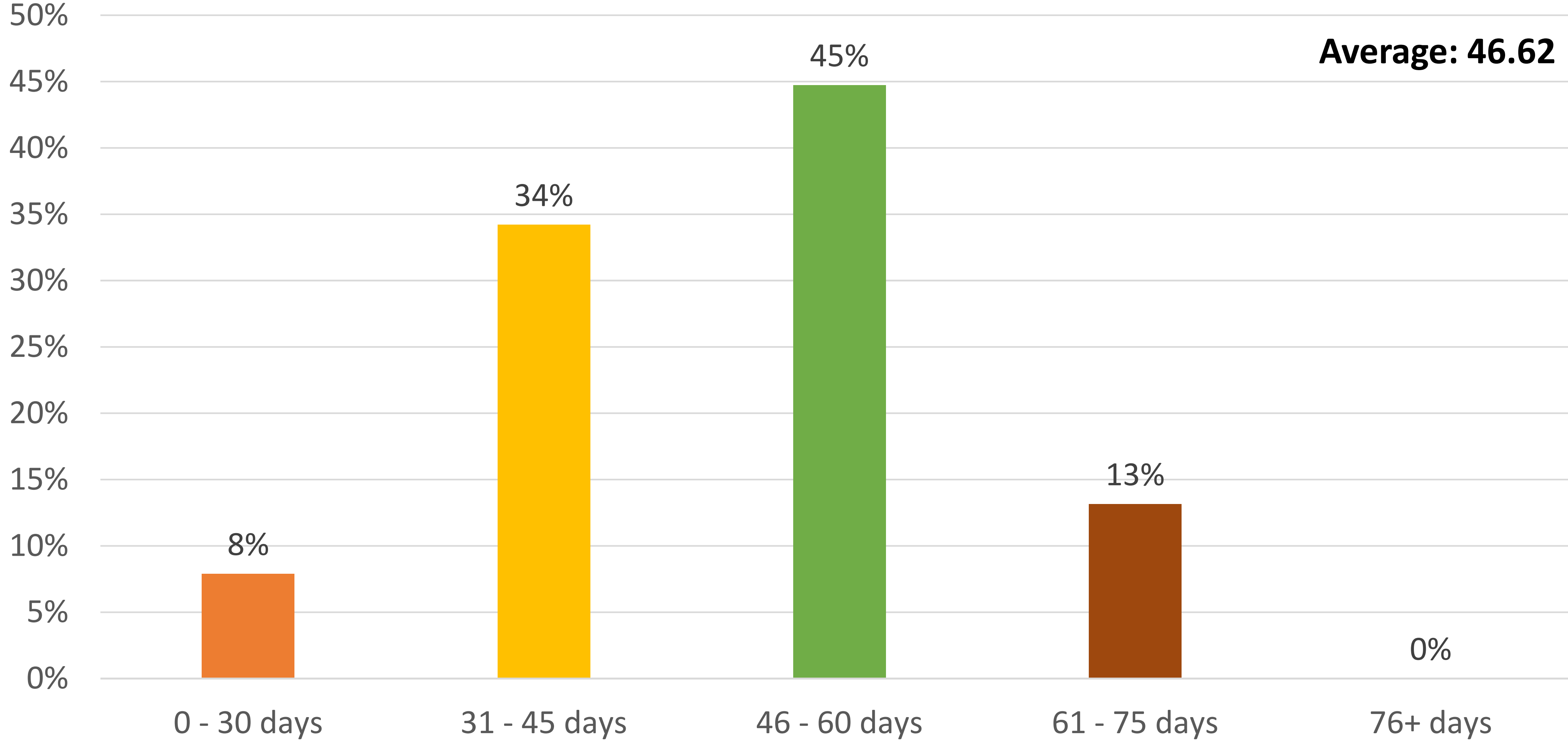
2014: Average: 1.47%
2015: Average: 1.37%

Please enter any comments on types of productivity/price down demands and/or negotiations you have experienced during 2016.

- Actual volume vs. contract quite low
- Cost downs are no longer acceptable for mature product lines.
- Forcing customers to focus on VaVe only
- Generally negotiated a reduction
- Global Pricing "Should be" reverse engineering costing from OE's
- In answering the above I assume VA/VE requests are separate.
- Insistence on [higher] price downs on new/newer business, but relief from price downs on longer term business
- Material increases mixed with volume decreases offset any reductions
- More emphasis on LTA than any time since 2009. More emphasis on steel rebill programs as well.
- Negotiated productivity cost downs, but put VAVE opportunities in place that would meet their requests if engineered in.
- Nothing unique outside of normal productivity requests.
- OEMs asked for part price reduction due to published expectation that the base cost of steel was going down.
- Offered and had accepted growth incentive (new product/awards) as part of LTA cost down
- With business being down we gave no decreases and mainly increases

PAYMENT TERMS

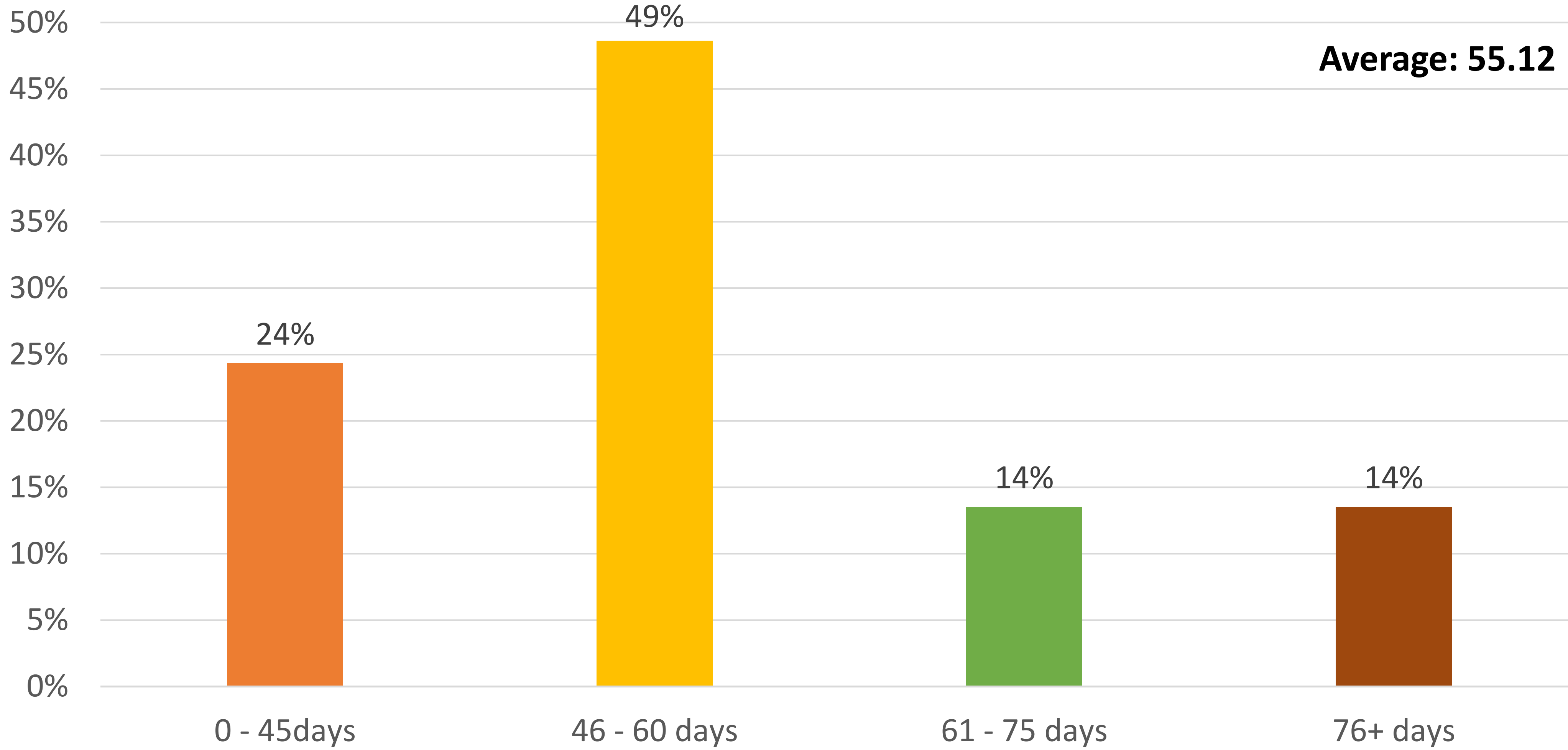
What was the average length of contracted payment terms during 2016 for your NAFTA LTAs?



Original Equipment Supply

2014: Average: 48.25 days
2015: Average: 49.20 days

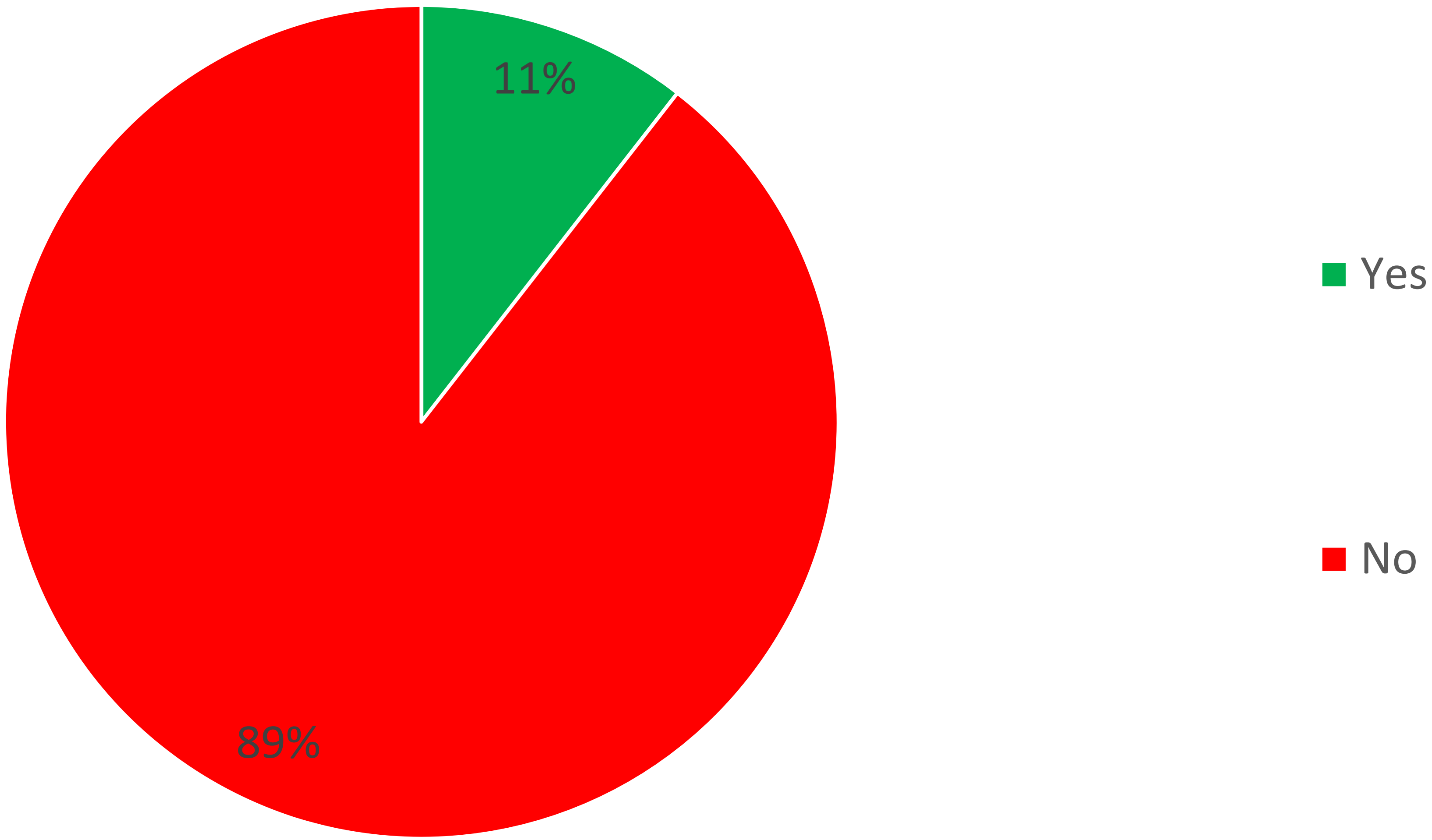
What was the average length of contracted payment terms during 2016 for your global LTAs?



Original Equipment Supply

2014: Average: 53.33
2015: Average: 59.39

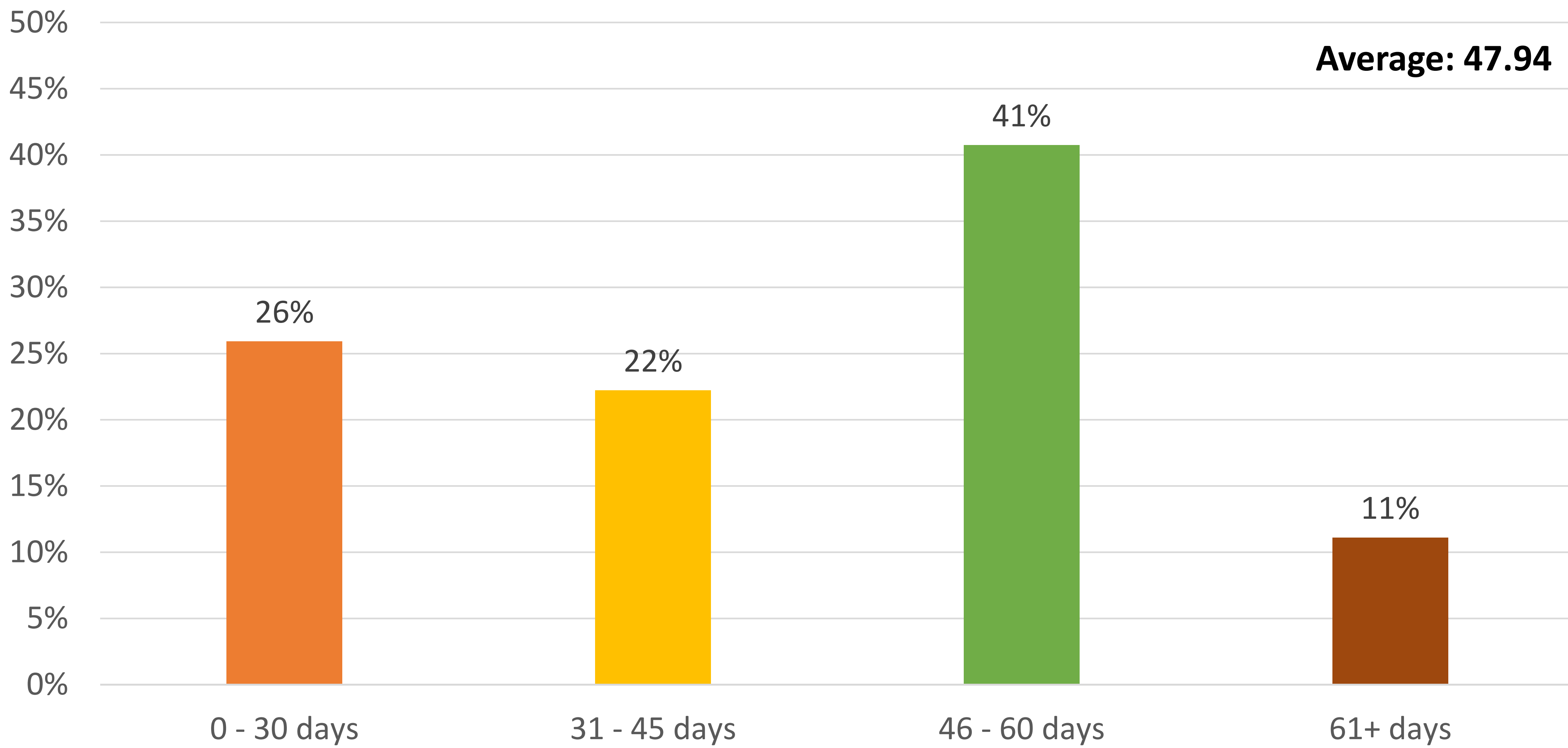
Were you able to negotiate reductions in the length of payment terms for 2016?



Original Equipment Supply

2014: Yes 0%, No 100%
2015: Yes 8%, No 92%

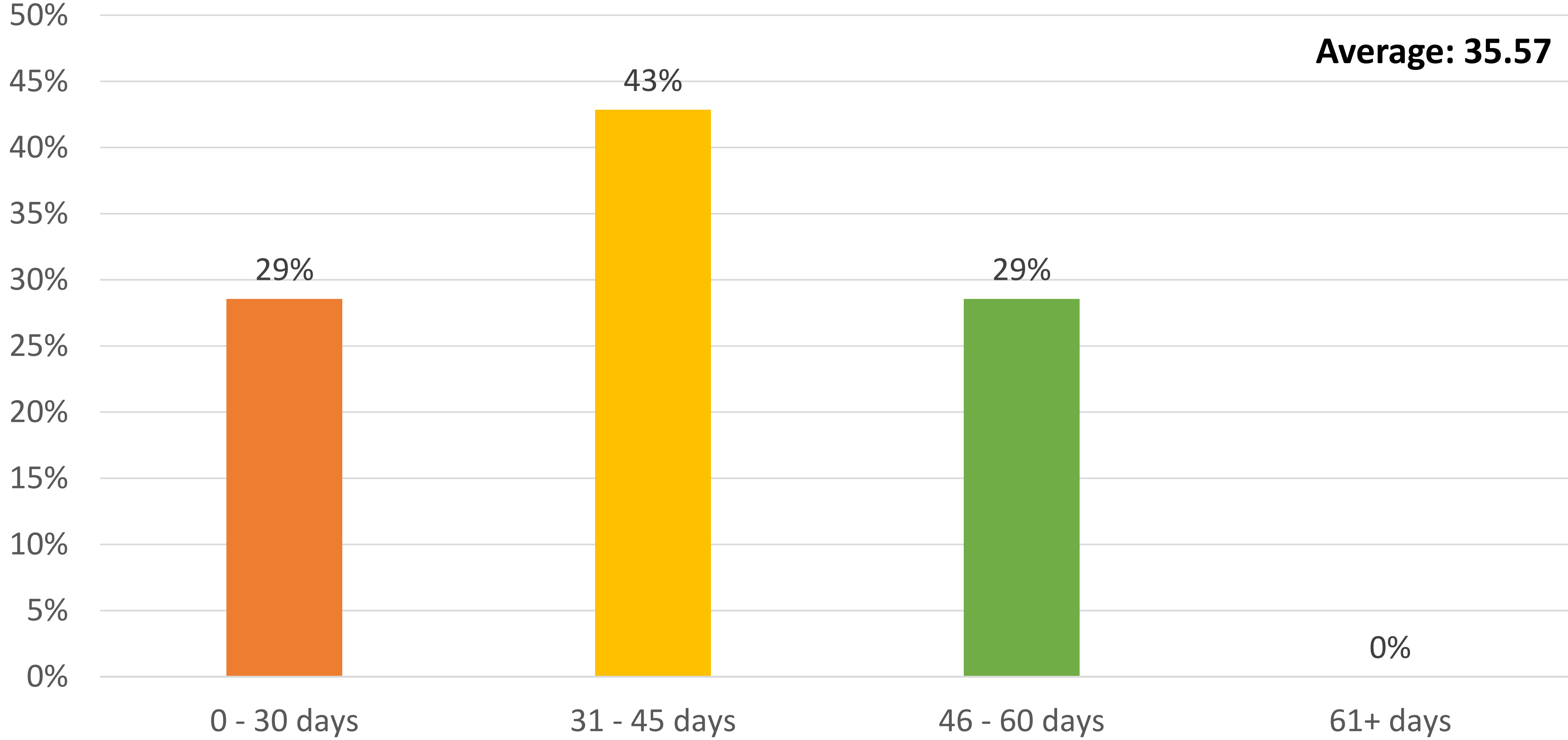
What was the average length of contracted payment terms for your OES customers during 2016?



Aftermarket & OES Supply

2014: 40.57 days
2015: 36.25 days

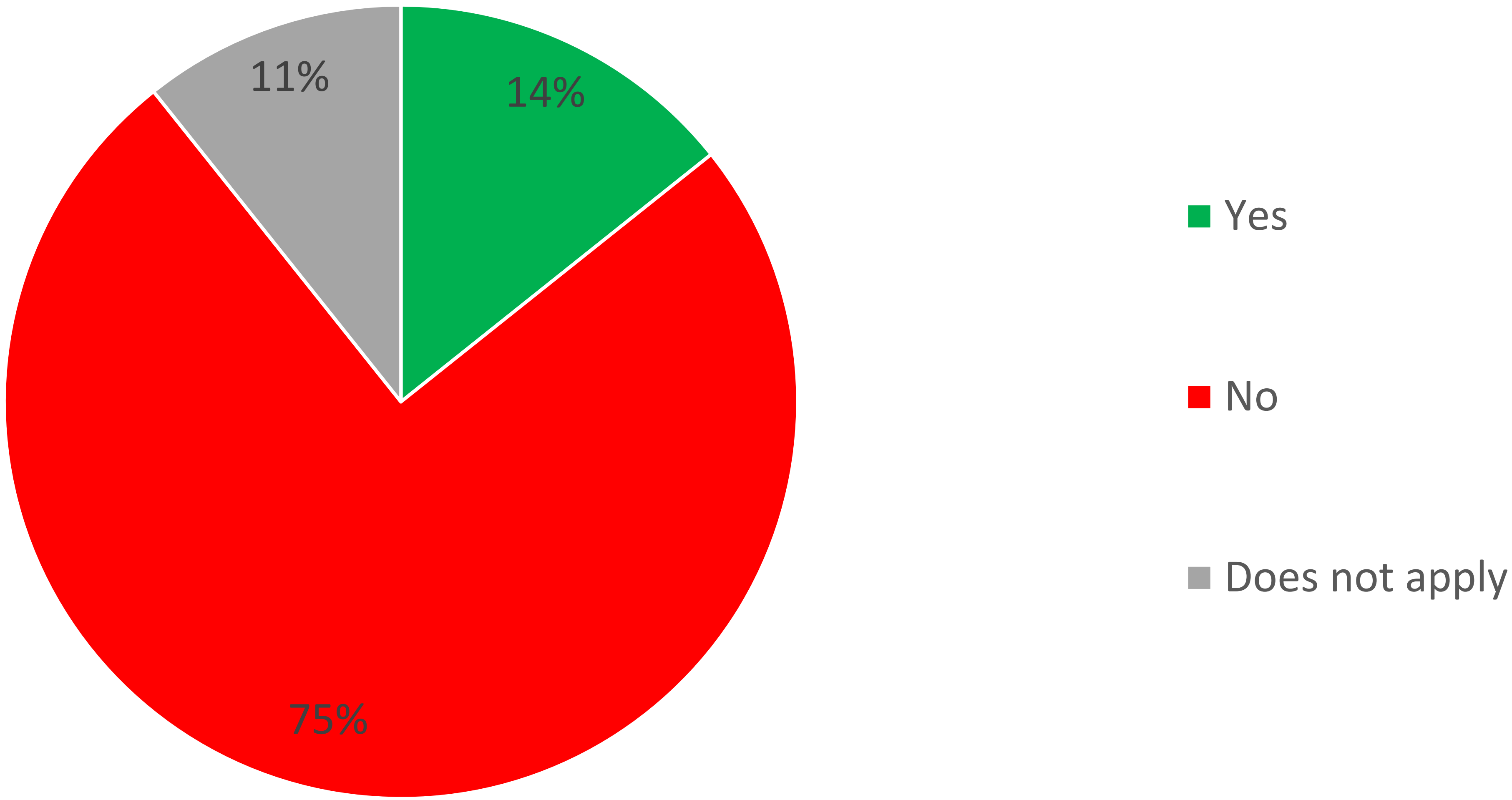
What was the average length of contracted payment terms for your major independent aftermarket customers during 2016?



Aftermarket & OES Supply

2014: 32.93 days
2015: 33.85 days

Were you able to negotiate reductions in the length of payment terms for 2016?

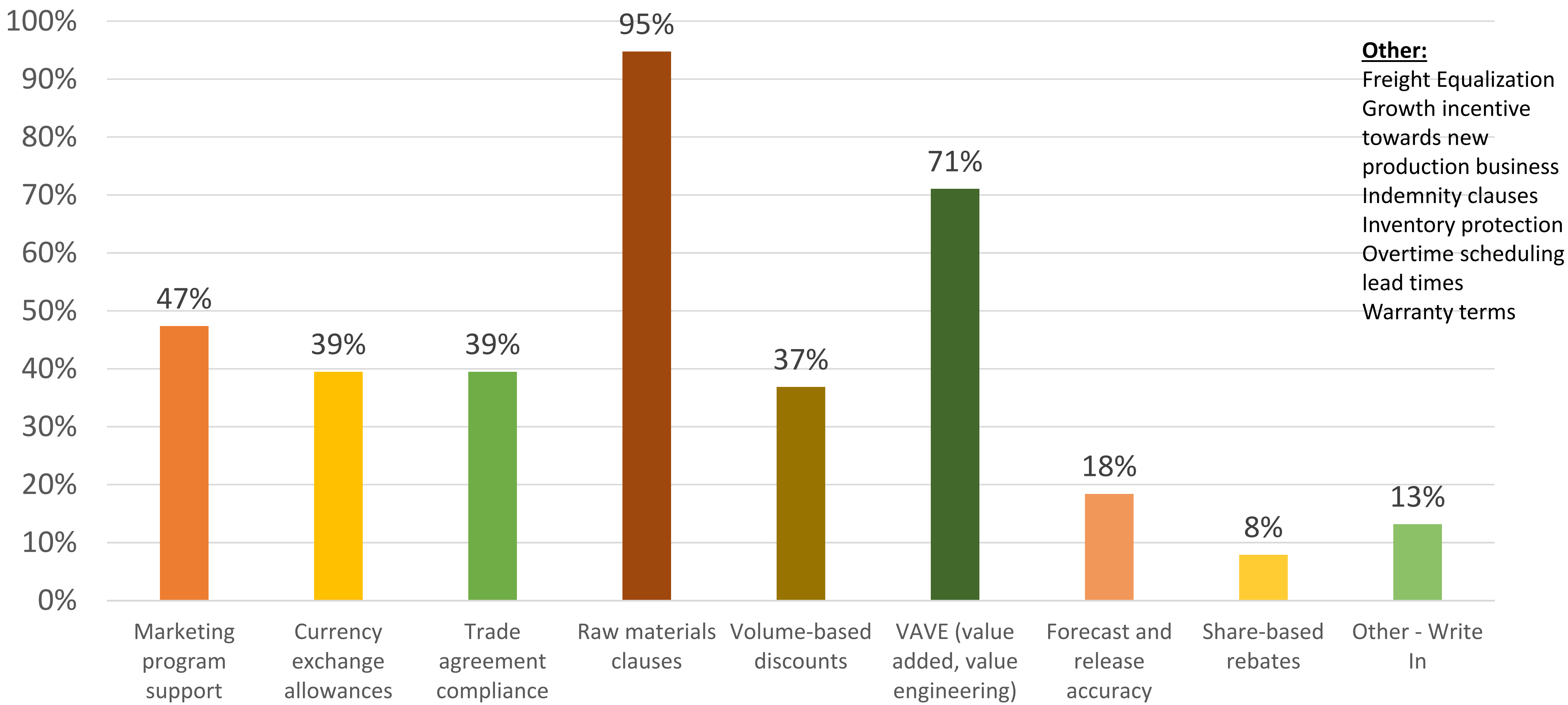


Aftermarket & OES Supply

2014: Yes 25%, No 75%
2015: Yes 9%, No 91%

OTHER TERMS - OE

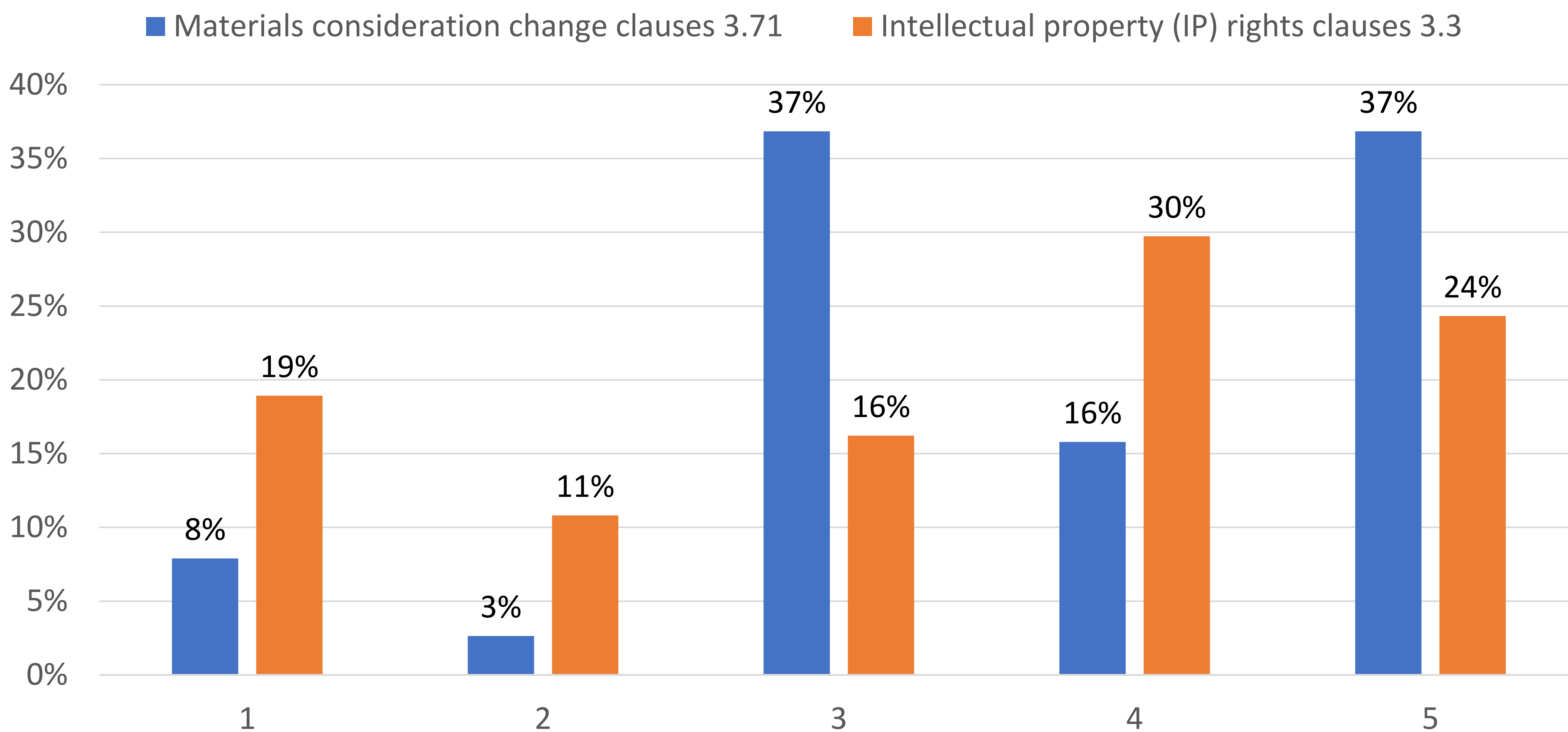
Which elements were included in LTAs in effect in December 2016:



Original Equipment Supply

2014: Max – Raw materials 77%
2015: Max – Raw materials 84%

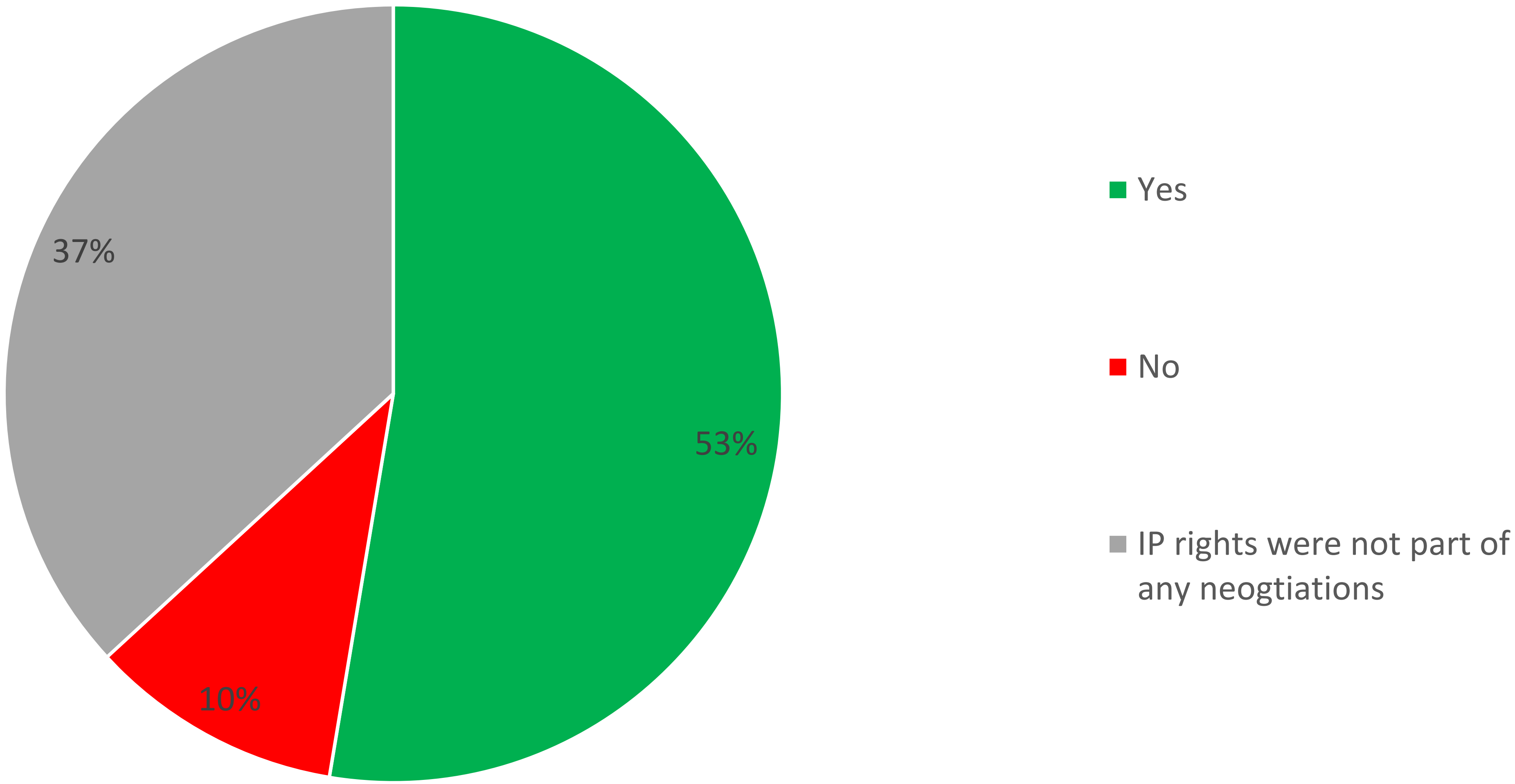
How important were materials consideration change clauses and IP rights in contract negotiation that occurred during 2016?



Original Equipment Supply

2014 Averages: Materials: 3.29 | IP: 3.13
2015 Averages: Materials: 3.73 | IP: 3.29

In 2016, were you able to successfully negotiate IP rights?



Original Equipment Supply

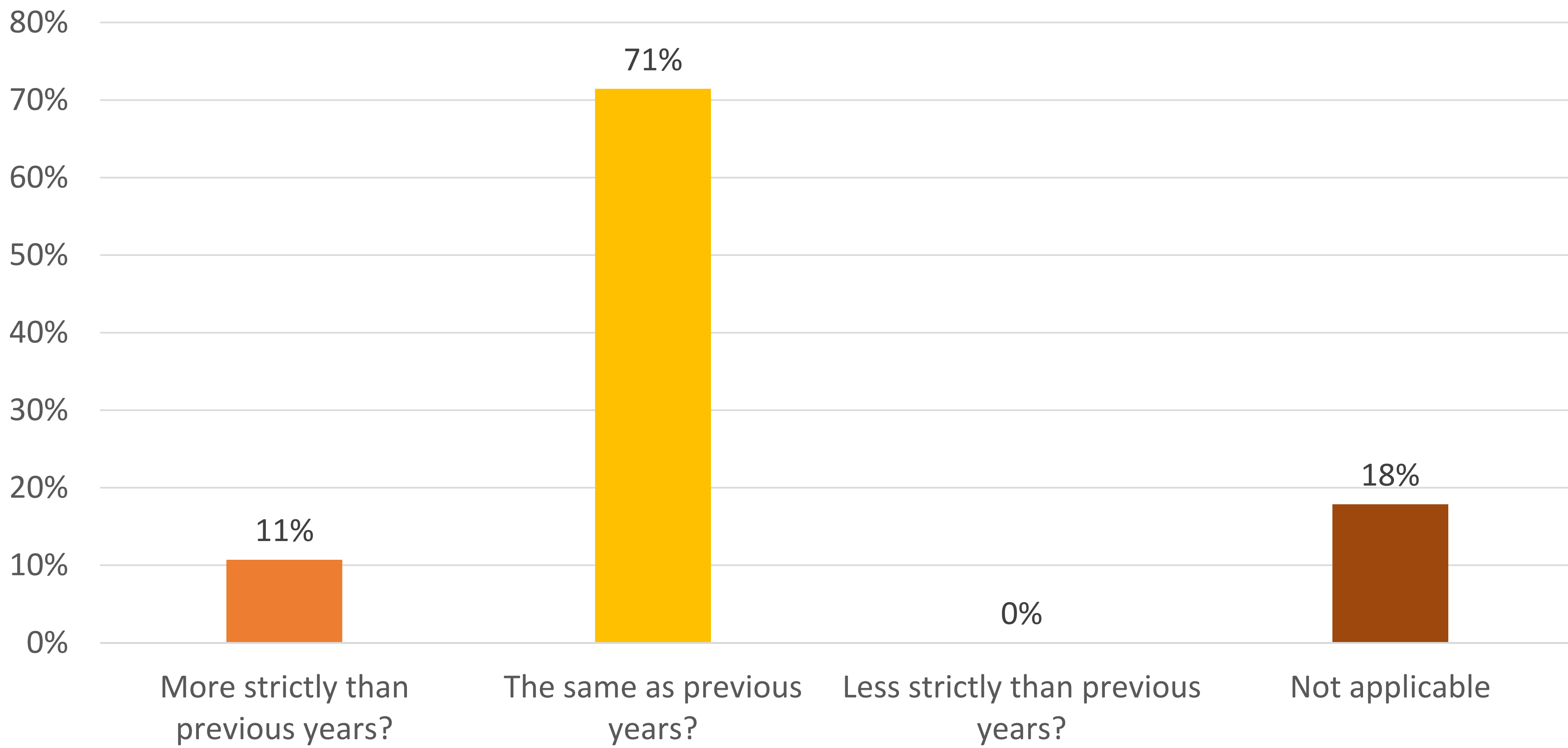
2014: Yes 55%, No 19%, NA 26%
2015: Yes 51%, No 10%, NA 39%

Please add comments on materials considerations and intellectual property rights during negotiations.

- Collaboration with OEMs on new material development for future programs to be launched in 2020 or later. All these engineering developments are done with the expectation to be part of OEMs supply base for production volumes.
- Confirmation of all supplier "background" IP rights - IP developed for customer funded projects could only be used for that customer's production, not licensed to third-parties.
- All products we provide are to our design and specification. We've never had any issues with IP protection in our LTA's.
- IP was not a new topic in 2016, rather a base agreement already in place with major OEM

OTHER TERMS – AFTERMARKET & OES

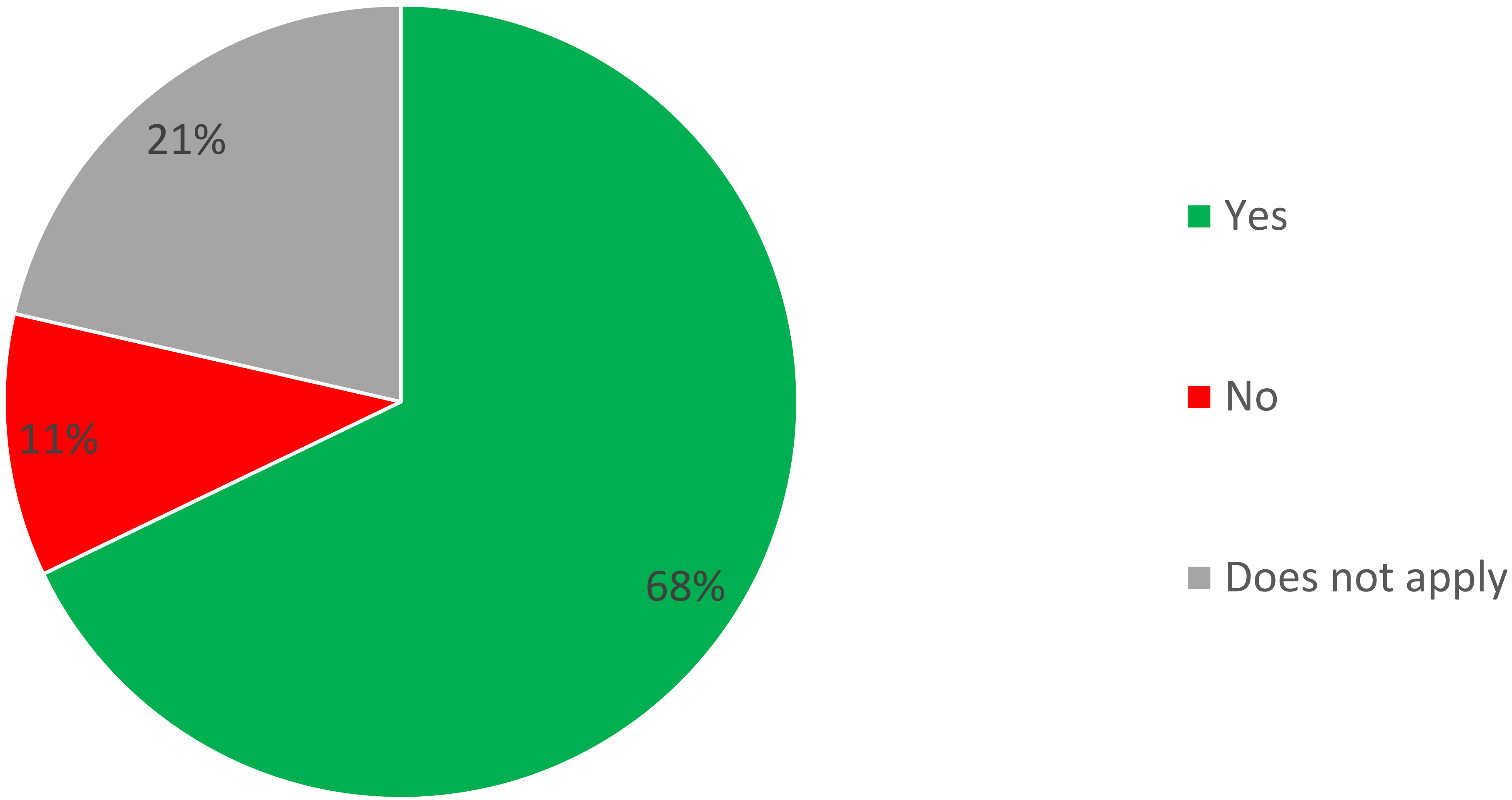
Did you for 2016: enforce your minimum order amount -



Aftermarket & OES Supply

2014: More:12%, Same:71%, Less:0%, NA:17%
2015: More:11%, Same:72%, Less:0%, NA:17%

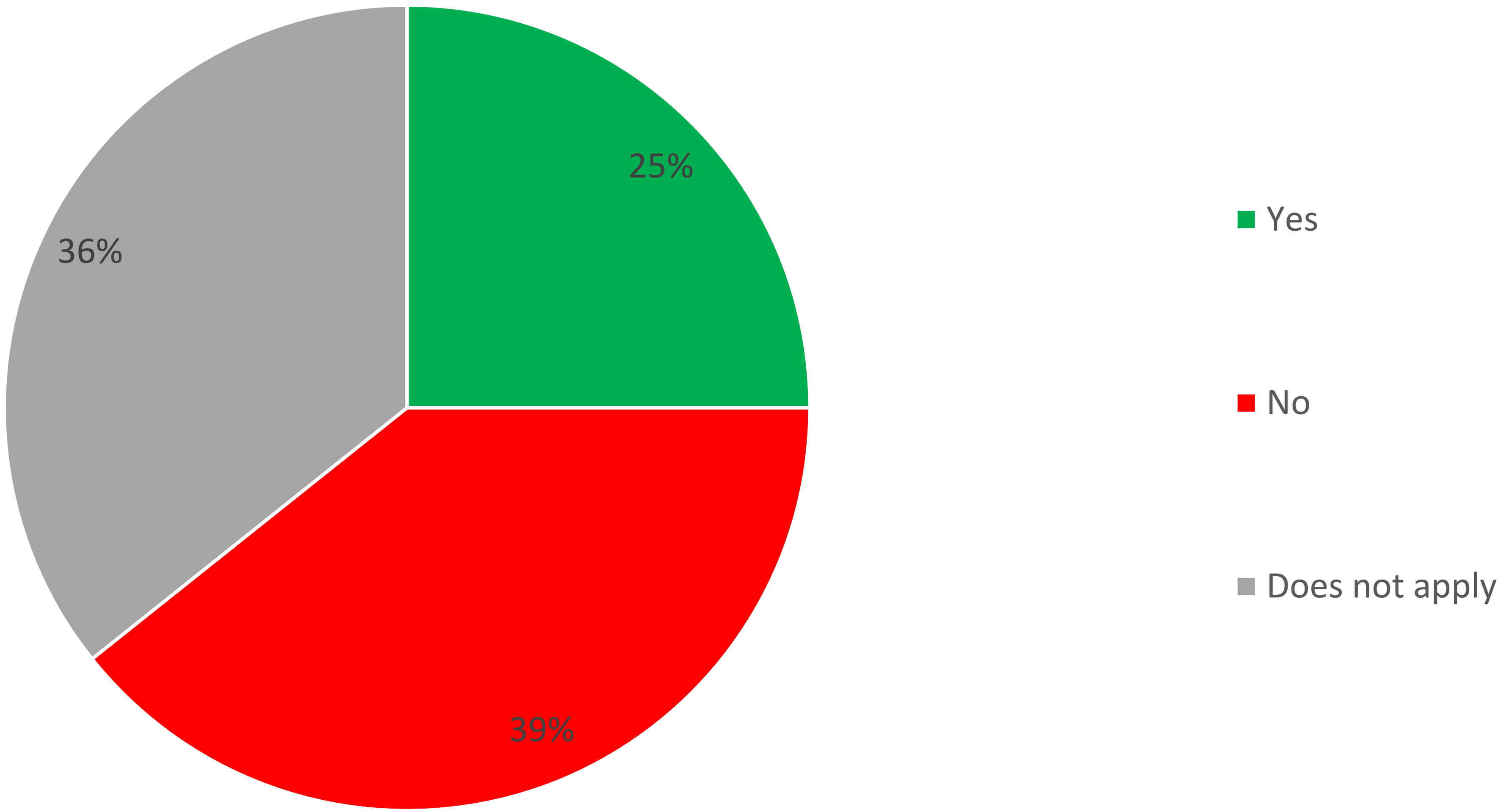
Did you for 2016: enforce a minimum order amount for freight prepaid?



Aftermarket & OES Supply

2014: Yes:83%, No:4%, NA:13%
2014: Yes:84%, No:5%, NA:11%

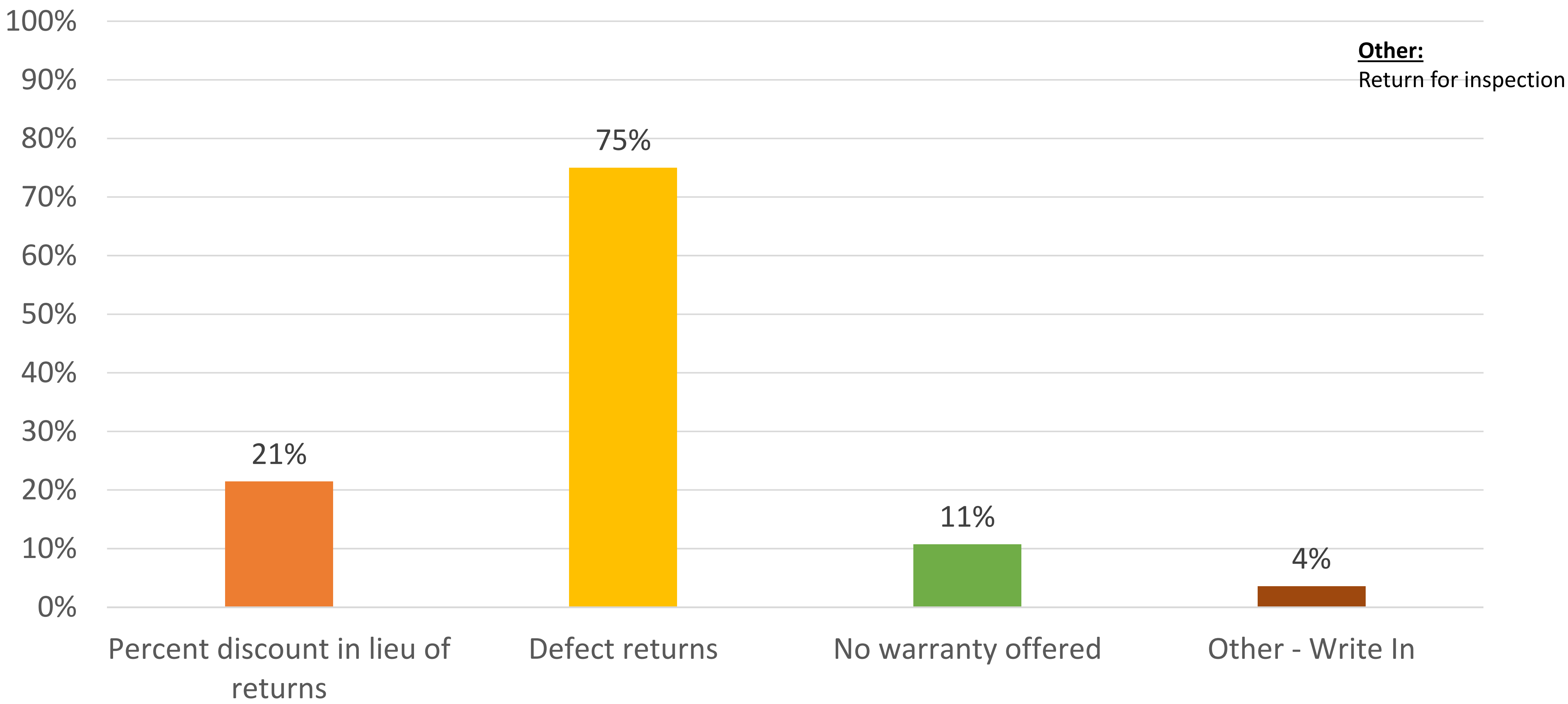
During 2016 were you able to negotiate the order fill-rate or order time guarantees?



Aftermarket & OES Supply

2014: Yes:21%, No:42%, NA:37%
2014: Yes:20%, No:33%, NA:47%

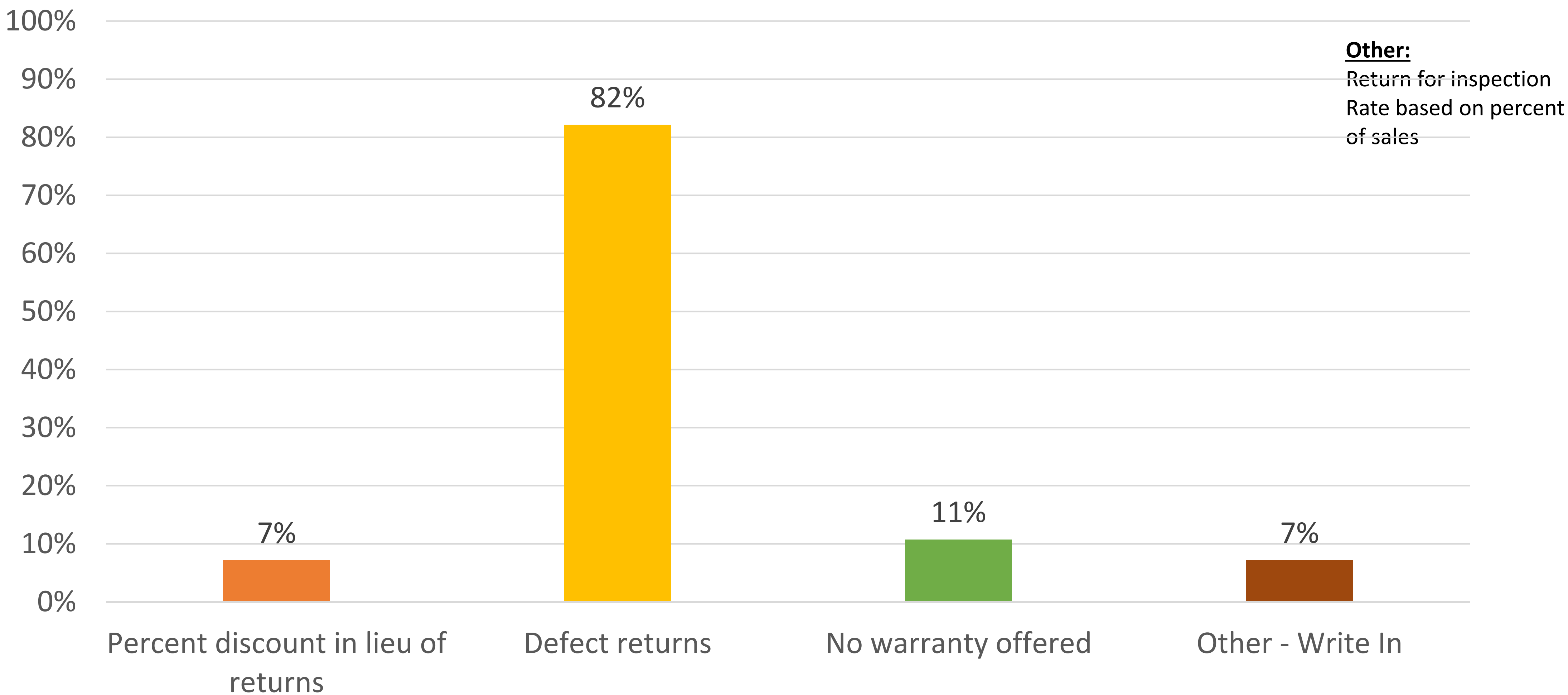
Did you for 2016: have a warranty policy for your OES customers?



Aftermarket & OES Supply

2014: Disc:9%, Returns:87%, None:0%, Other:17%
2015: Disc:13%, Returns:79%, None:0%, Other:8%

Did you for 2016: have a warranty policy <u>for your independent aftermarket customers</u>?



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Aftermarket & OES Supply

2014: Disc:4%, Returns:91%, None:0%, Other:9%
2015: Disc:17%, Returns:69%, None:5%, Other:10%

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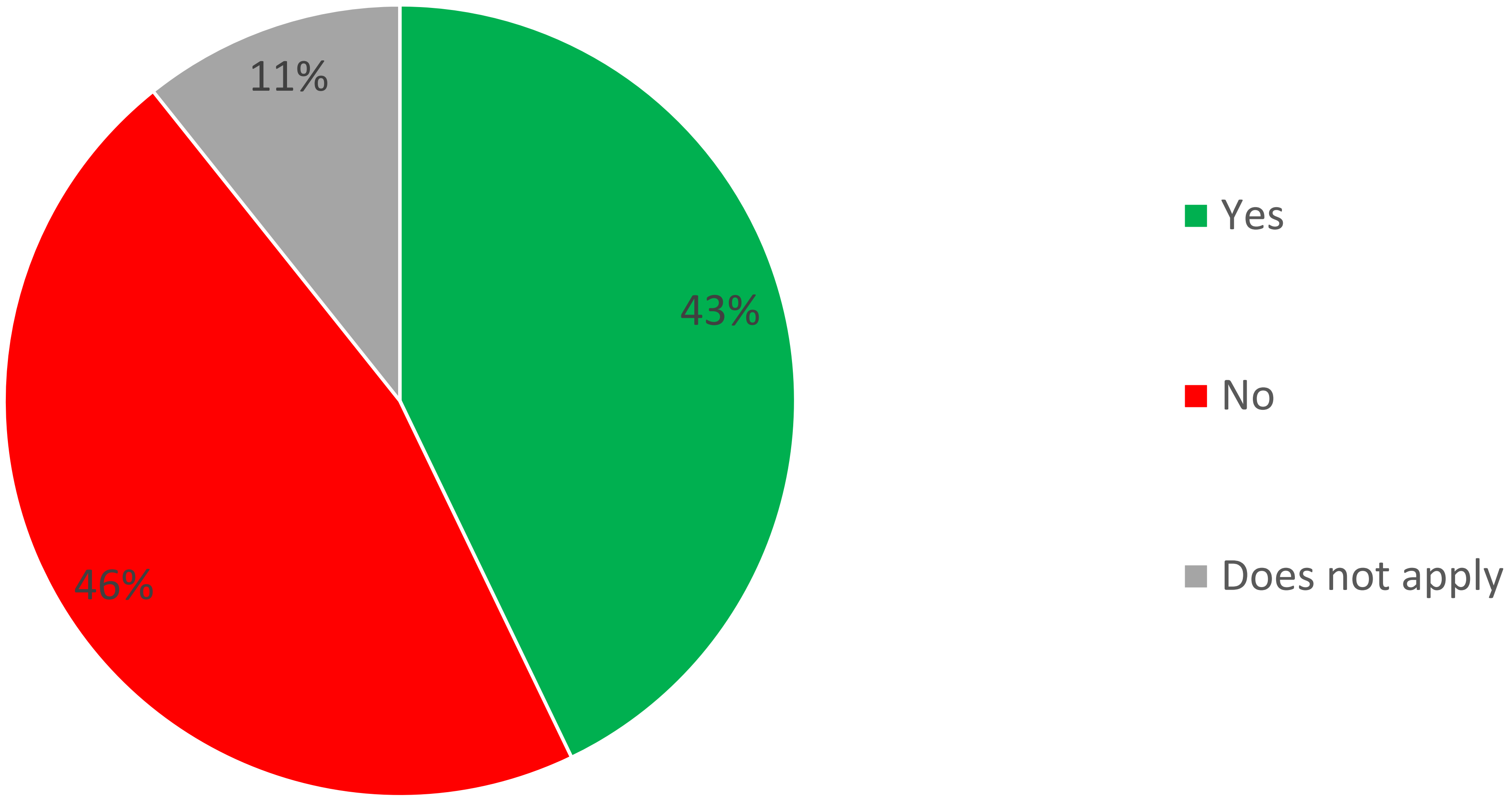
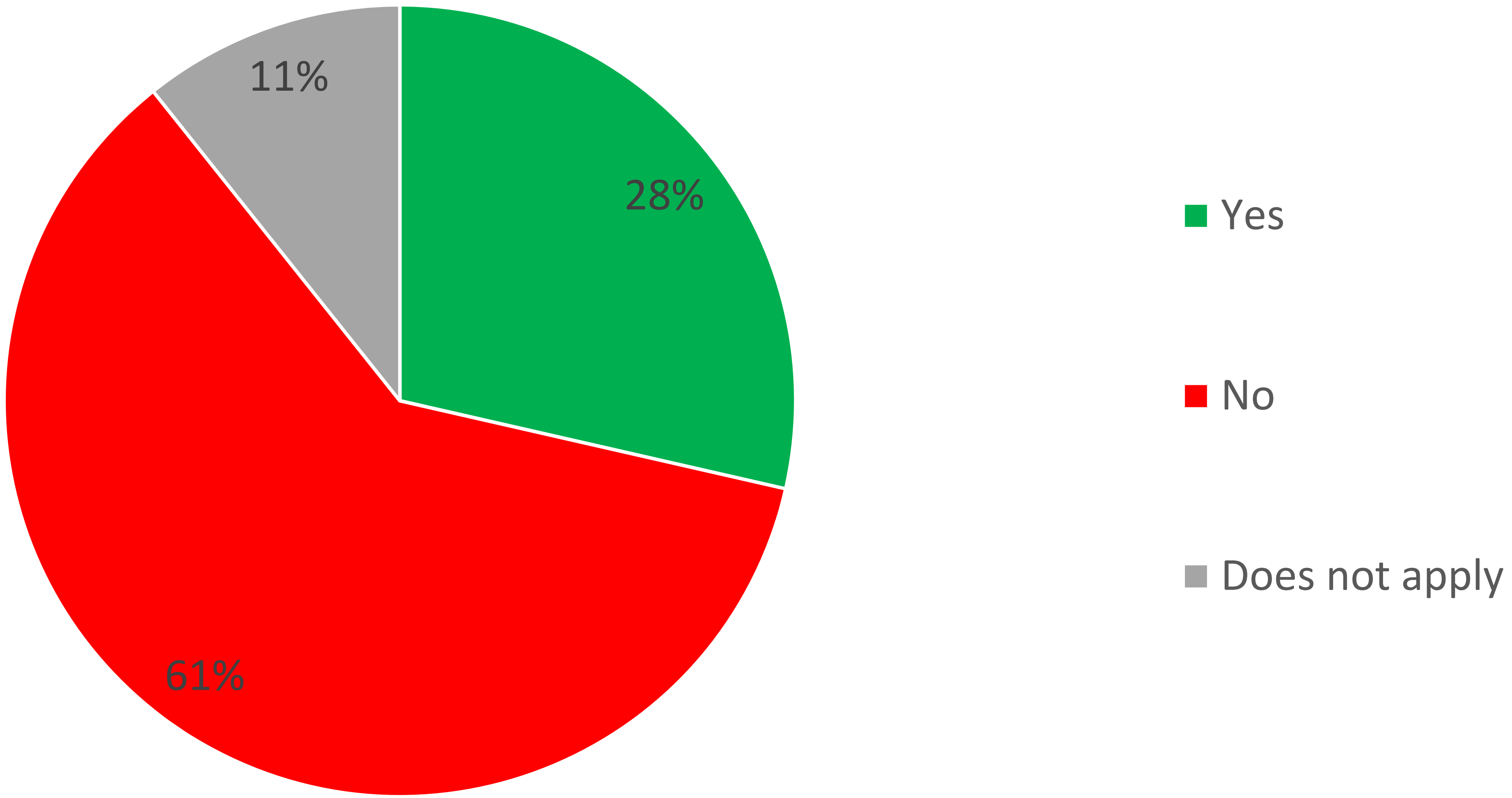
Did you for 2016: allow for labor claims in addition to the warranty policy <u>for your OES customers</u>?



Aftermarket & OES Supply

2014: Yes:52%, No:39%, NA:6%
2015: Yes:49%, No:32%, NA:19%

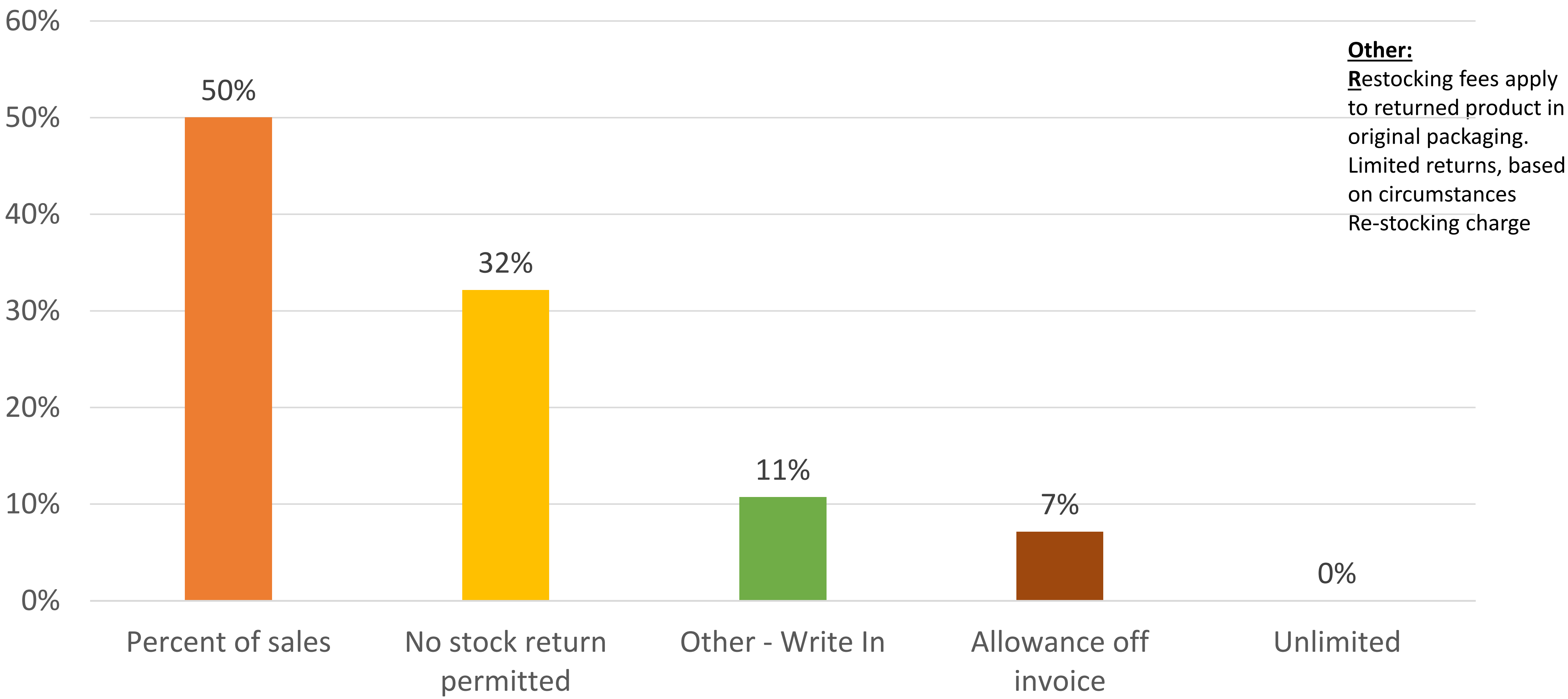
Did you allow for 2016: labor claims in addition to the warranty policy for your independent aftermarket customers?



Aftermarket & OES Supply

2014: Yes:35%, No:61%, NA:4%
2015: Yes:41%, No:43%, NA:16%

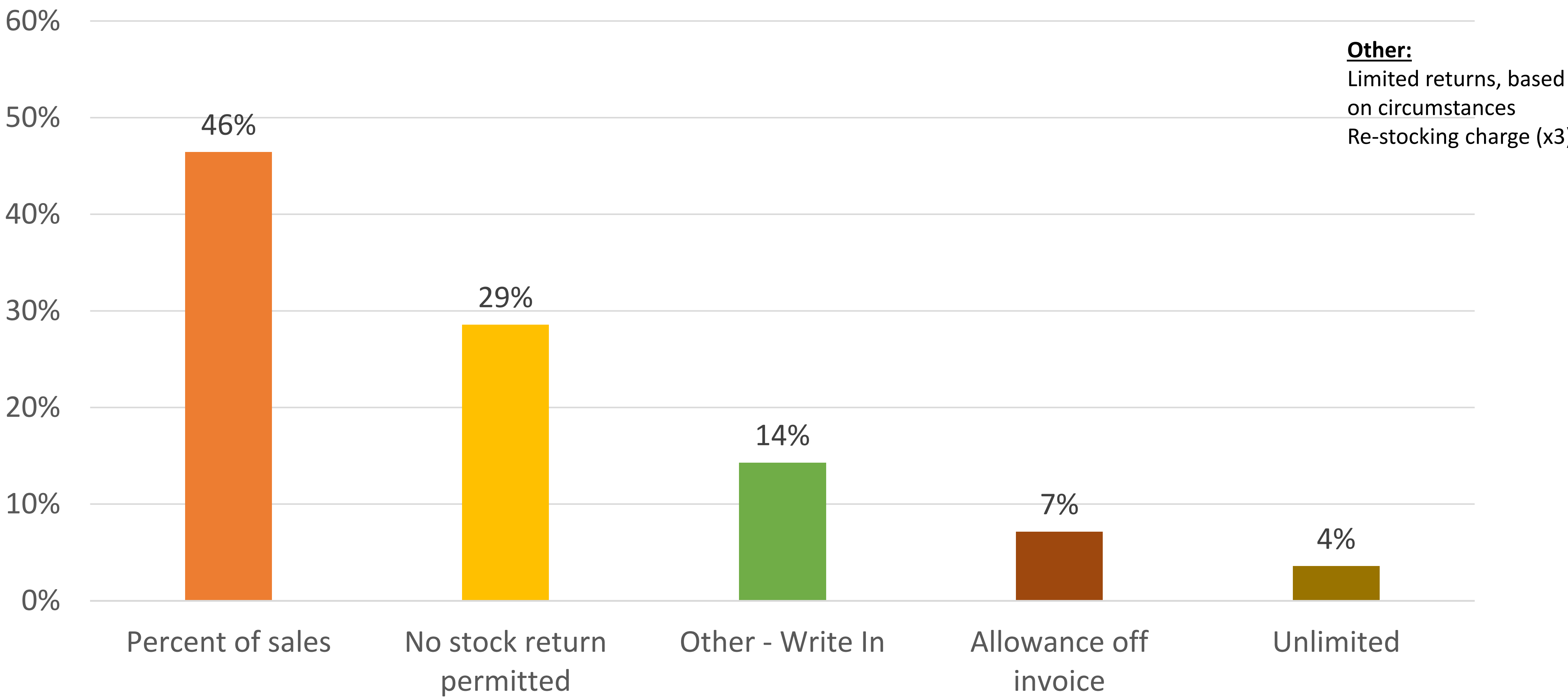
During 2016, how did you handle stock returns for your OES customers?



Aftermarket & OES Supply

2014: Max - %Sales:54%
2015: Max - %Sales:66%

During 2016, how did you handle stock returns for your major independent aftermarket customers??



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Aftermarket & OES Supply

2014: Max - %Sales:70%
2015: Max - %Sales:78%

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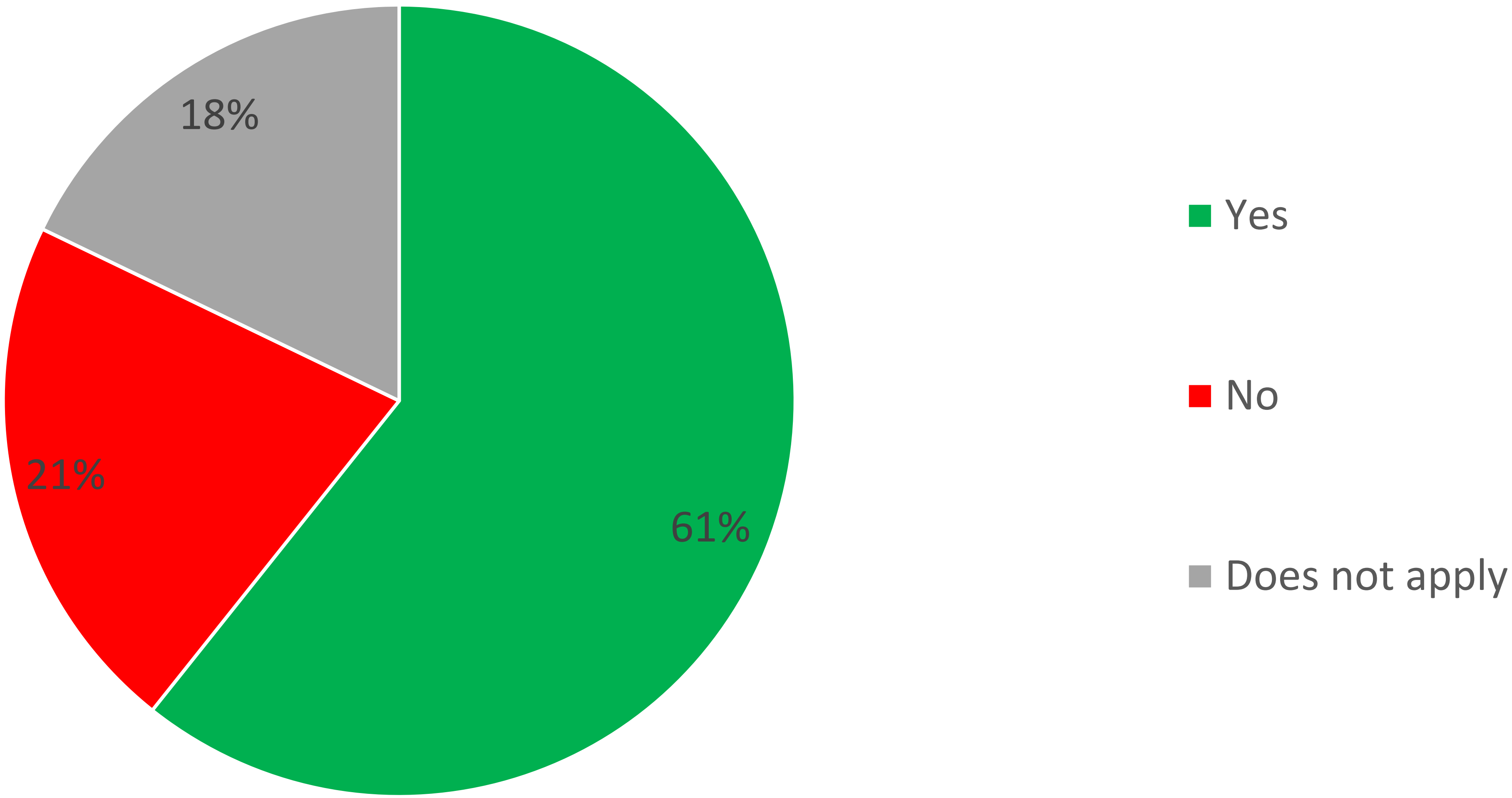
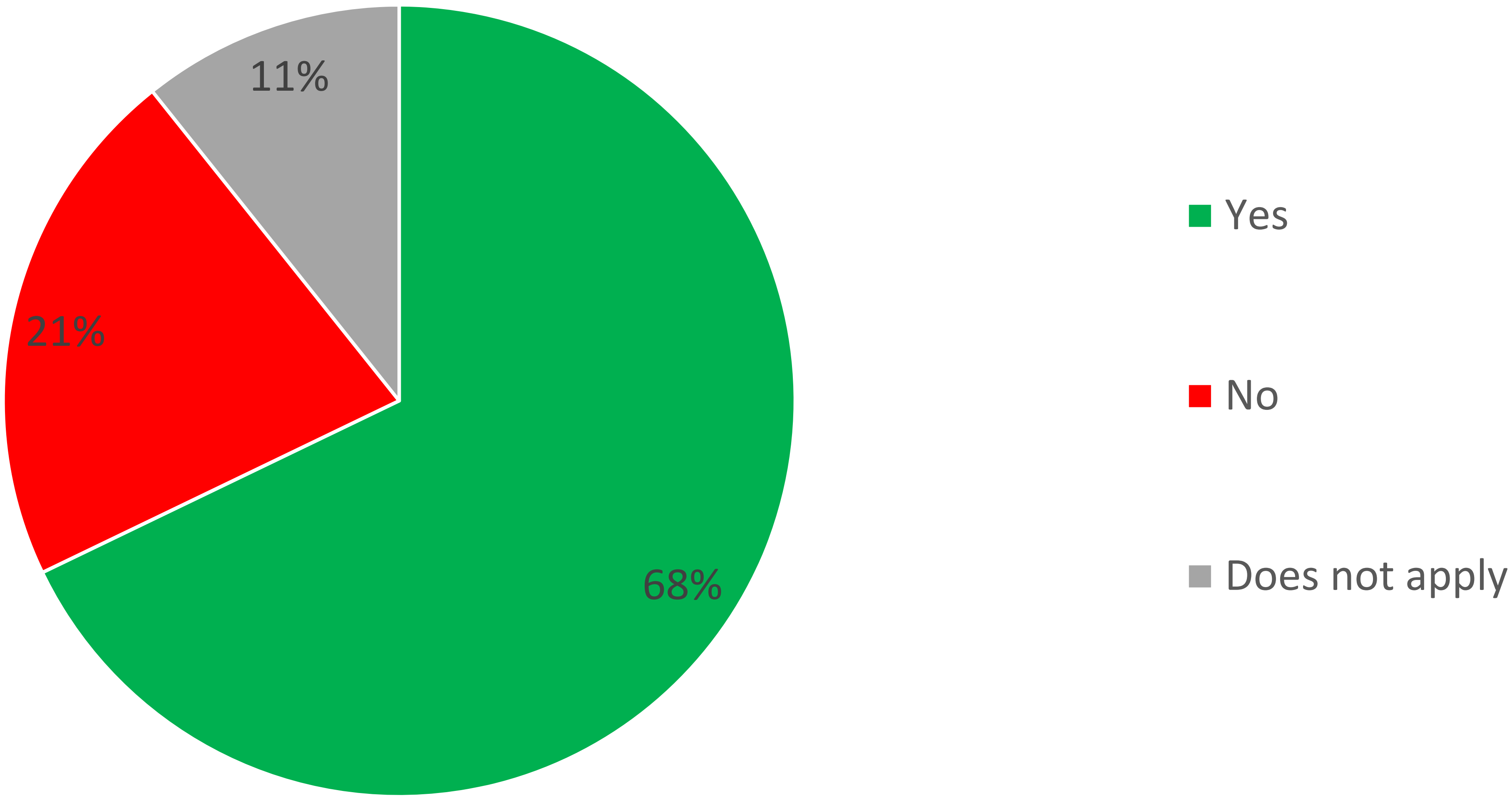
During 2016, did you charge fees for returned product from your OES customers?



Aftermarket & OES Supply

2014: Yes:65%, No:26%, NA:9%
2015: Yes:54%, No:19%, NA:27%

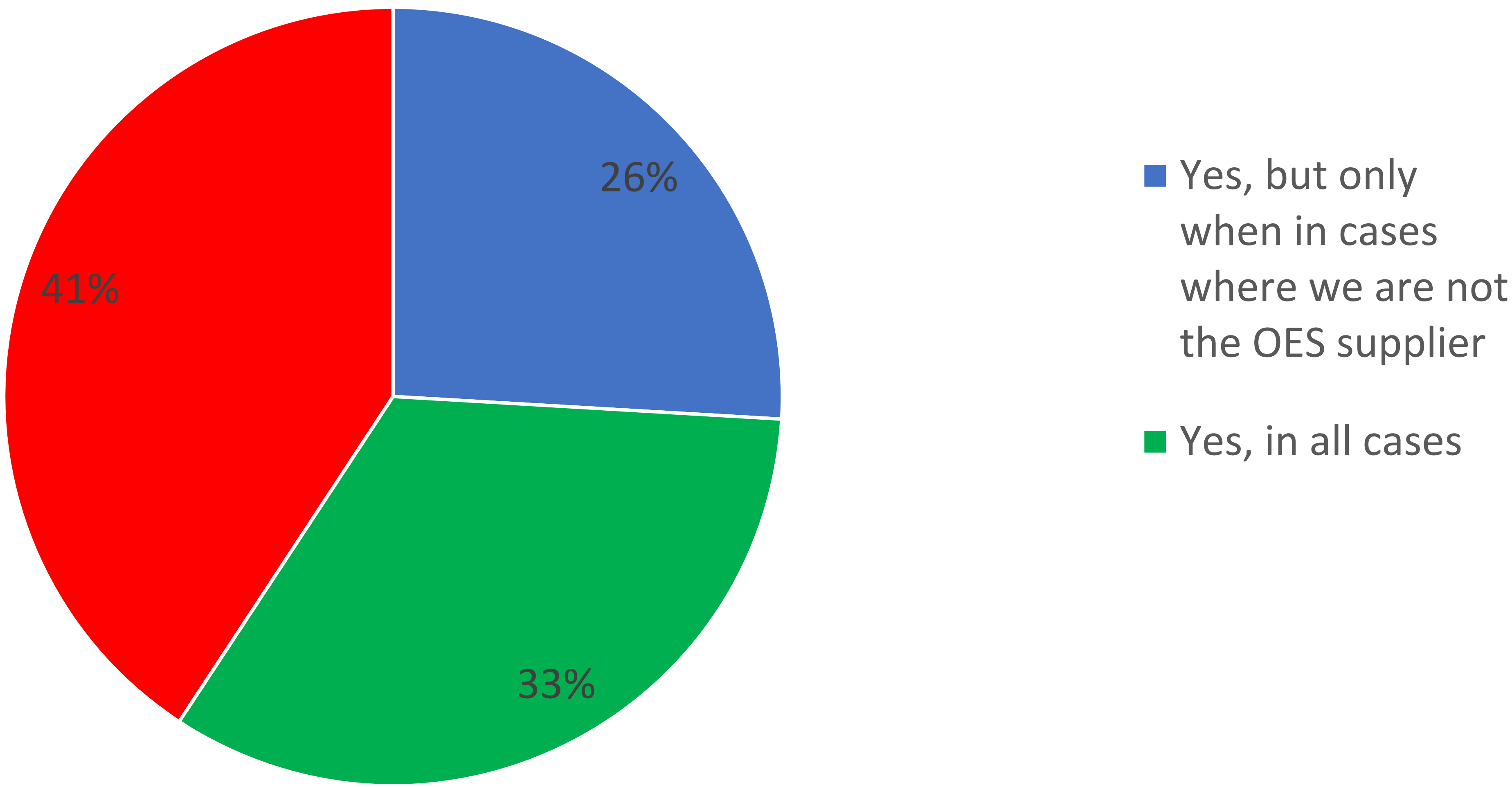
During 2016, did you charge fees for returned product from your major independent aftermarket customers?



Aftermarket & OES Supply

New for 2016

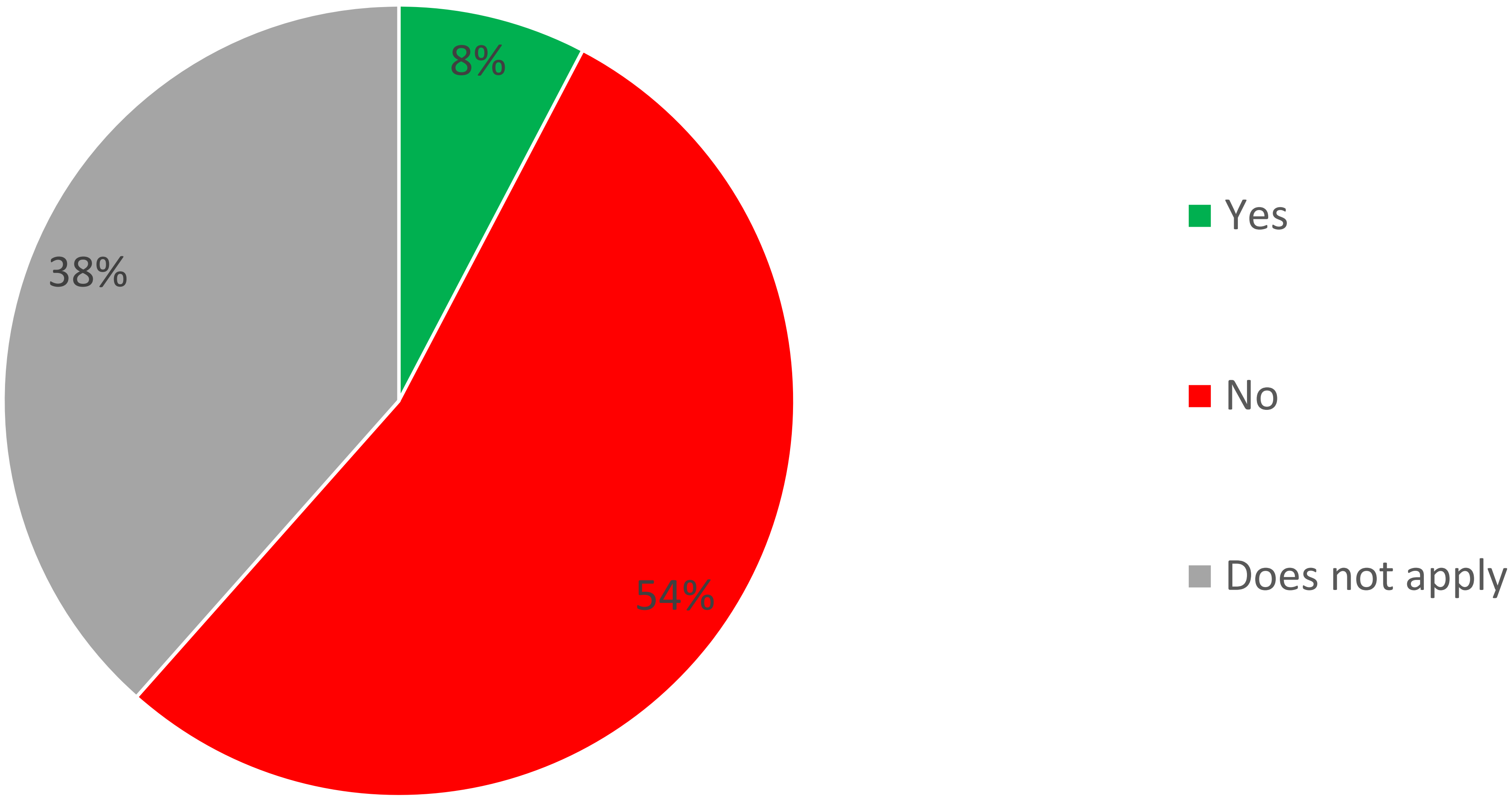
During 2016, did you sell to dealer owned independent warehouses?



Aftermarket & OES Supply

2014: Yes not OES:17%, Yes All:48%, NA:35%
2015: Yes not OES:17%, Yes All:41%, NA:42%

If yes, did you extend OES prices and supply terms and conditions to the independent portion of the business in 2016?



Aftermarket & OES Supply

2014: Yes:13%, No:52%, NA:35%
2015: Yes:17%, No:17%, NA:31%

LOOKING FORWARD

What is the single largest change in terms and conditions that you can foresee in the next two years?

- A clear focus on warranty pass through.
- change on raw material calculation (to what we believe is in our favor)
- continued pressure for longer payment terms
- Cost downs
- currency clauses
- Higher price reduction requests
- Increased globalization of truck OEM negotiations
- Increased pricing pressure to make OES pricing similar or the same as OE pricing
- longer payment terms;
- Lower PPM (10) requirements and potential penalties; shortened allowable delivery windows.

What is the single largest change in terms and conditions that you can foresee in the next two years?

- More material cost clauses
- More pressure by OEMs for suppliers to fund NRE on new programs, without the OEMs giving up IP rights, price down, etc.
- More pressure to give aftermarket exclusivity
- More warranty support, extension of payment terms, even more VAVE cost reduction
- NAFTA going to >60 days
- Penalties for quality defects at the OEM Plant Level.
- Price, currency, material inflation, trade terms
- Price downs
- Productivity discounts.
- Requirement for local content to support OEM customers in Mexico.
- Warranty
- Warranty terms and repair part performance

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What is the single largest change in terms and conditions that you can foresee in the next two years?

- Deeper discounts for channels more loyal to the brand.
- More independent WD's being purchased by large dealer groups.
- Not taking back under any circumstances obsolete or replaced parts.
- OES will push for a closer connection to OE pricing and T&C's.
- On time delivery targets with penalties for missing.
- Prepaid freight will be harder to provide in future.
- Price downs and returns
- Prices and quality of the products
- Pricing
- Push by OEM for same pricing as serial production
- Request for extended dating. It helped kill the automotive aftermarket and it will kill the CV aftermarket as well. Interest rates will increase thereby raising cost of money
- Shorter lead time for dealer direct ship orders (meeting PDC turnaround of 1 day)

Thank You

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