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"The Worst Thing You Can Do Is Nothing"

Thank you. It's a pleasure to be at the Management Briefing Seminar and we have already heard some great speakers.

At this year's event we have Jeff Daniels. While Mr. Daniels is an accomplished actor, what impresses me most about him is his commitment to living his dream and creating a professional theater company in Mid-America that features Midwestern actors, directors and designers. In the beginning few could understand what he was trying to do. Some expected to see his movie star friends in leading parts. Others wrote the whole idea off as simply crazy. But Jeff stuck to his plan and today the old "bus garage" he bought in his hometown of Chelsea houses the nationally recognized Purple Rose Theater. Jeff's vision for the Purple Rose Theater is one example of what can be accomplished when you stick to your plan.

And that's been our strategy at Metaldyne...stick to the plan.

We set out six years ago to transform Metaldyne, while unknowingly having to navigate in an industry that has thrown us some curve balls.

For those of you who don't know Metaldyne, we are a $2 billion in revenue automotive supplier of metal-based products and assemblies in the Powertrain and Chassis segments. Our headquarters is in Plymouth, Michigan, and we have 38 plants globally, and nearly 7,000 employees.

Our core products shown here include balance shaft modules, powdered metal connecting rods, transmission modules and wheel-end assemblies. Metaldyne's products can be found on many well-received vehicles like DaimlerChrysler's 300; and Hyundai's Sonata. What's unique about many of our products is that they tend to have longer production lives than interior or exterior components that are subject to "cosmetic re-freshening".

We also have a well-balanced customer base, with our largest customer being DaimlerChrysler at nearly 45 percent of direct and indirect sales…….It's a great time to be a supplier to DaimlerChrysler.

We are forecasting growth with Asian OEMs from 7 percent of revenue today to 17 percent in 2009. We see great growth in Asia. In fact, according to CSM, 57 percent of all vehicle development worldwide is expected to be done in the Asia Pacific region by 2012.
Now that that's out of the way, as many of you know, the past 18 months in the automotive supply world has been particularly painful and challenging. Much of our industry went into a "hunker-down" mode and in many cases companies placed well-thought-out strategies "on hold" while they fought for survival.

Let's re-cap the key drivers that impacted the industry:

First, in the fall of 2004, OEM customer-sponsored "Quick-Pay" programs evaporated. Then throughout 2005 credit ratings of certain traditional customers started to drop. Both of these events tightened the available financial credit in the supply network. Simply put, liquidity which serves as the oxygen for any business suddenly became very thin.

To make matters worse, raw material prices, in particular steel, hit an all-time high and nearly doubled in late 2004 and early 2005. Let me tell you, when a cost driver that makes up over 40 percent of your total cost doubles you start shipping dollars out the door pretty quickly. I think Wilbur Ross said it best in a recent interview with Ward's Auto World.

"Raw material costs are generally half the total cost of an auto supplier. To speculate on half of your cost and agree to automatic price reductions is nuts. You can get crushed because your margins aren't that great to begin with."

In fact, the price of poker just went up. The world's two largest steel companies, Mittal and its European rival Arcelor have agreed to merge. Together they will control about 10 percent of the global steel producing capacity and will be about three times larger than their nearest rival, Nippon Steel. Not long ago, steel suppliers were struggling, now they are enjoying unbelievable strength in the global automotive supply chain. It can be done.

Crude oil prices also significantly increased in 2005. This had two primary effects on suppliers. First, it caused significant price increases in plastic components since crude is a key driver to manufacture polymer raw materials. Second, significant increases in gas prices negatively impact consumer confidence, and tend to reduce the demand to purchase vehicles, thereby softening volumes.

The carnage that ensued and whipped out of equity values in the automotive supply space in 2005 and into early 2006 is well known.

Where does the fault lie?

As Larry Jutte, Honda's SVP of procurement said in Ward's Auto World, "If you're my supplier and I'm treating you fairly and I'm working with you and we're having good communications and our business relationship is fair, then if you end up in bankruptcy, I would have to ask, 'Why?'"

The problem is…some customers don't follow the same strategy and that is driving more companies into an economic tailspin. Over the past 18 months 17 have filed Chapter 11.

A few of these bankruptcies impacted Metaldyne, most notably the unfortunate Chapter 11 filing by Dana Corporation where we were an $11 million unsecured trade creditor. I will note that we have since settled this matter with Dana.

The events that took place with these suppliers were simply indiscriminate.

It didn't matter if you had a great deal of cash on hand, as we witnessed in the case of Dana where they lost nearly $2.5 billion in equity value since early 2005.

It didn't matter what your traditional customer-supplier relationship was in the industry. Requests for recovery of global raw material prices were met with request for steep productivity commitments, which was essentially a request to transfer supplier margins to customers. That simply does not work. Giving productivity in a market with decreasing volumes and increasing costs is a recipe for disaster.

It didn't matter if you were a minority-owned, family-owned, a new supplier, or a long-standing supplier. The past 18 months have evolved into a time of "every company for itself"…an absolutely unsustainable environment for our industry.

This is especially true when reliability of supply and access to capital to make new capital investment is critical to the success of the wider customer-supplier network.

Metaldyne was a bit of a lightning rod during the early part of 2005, but since the "lightning rod issues" turned into more respect for our company.

So how did Metaldyne make it through this storm and get to where it is today?

First, you need to better understand what we set out to accomplish.

Metaldyne was created as a private company in 2000 by combining Mascotech and Simpson Industries. We later added GMTI, a Dana operation and DaimlerChrysler's New Castle facility. We started out by design, with a plan to transform the company and get to the ultimate dream – "an Initial Public Offering."

Going into 2005 our business model was working as we were realizing the benefits of our product and technology investments.

We had, and continue to have, solid cash earnings. On the other hand, we had a fair amount of debt.

At the end of 2004 we were faced with a significant part of our cash earnings being "at risk" due to higher material prices.
Not unlike every other metals based supplier in the industry.

So what did Metaldyne do that was unique?

We used the following simple key areas to help guide and operate Metaldyne.

1. **Vision**: We stayed the course with our strategic vision for Metaldyne.

2. **Organization**: We organized the company to adapt to the significantly changed commercial environment.

3. **Innovation and technology**: We focused on value-added products where we had a technical advantage.

4. **Execution**: We did not succumb to the rhetoric of what "could not be done," but instead focused on controlling our own destiny.

5. **Results**: Finally, we focused on our financial performance as we were determined to differentiate Metaldyne from most suppliers.

Let's look at vision first. A vision requires "tenacity" and a commitment to the long term. Let me share a story with you.

In 1976, during the 200th celebration of the US many countries gave gifts to commemorate the occasion. Japan's gift was a 200-year-old bonsai. It was a very telling gift.

The bonsai represented the island nation of care takers who plant seeds in one generation, nurture them in succeeding generations and reap the benefits many generations later. It is how many Japanese companies plan and execute strategy. Unfortunately, some companies don't understand the significance of the tiny plants, nor are they willing to wait while the bonsai tree grows.

Bonsai trees should even interest the most devote capitalist. According to a recent article in Forbes a 250-year-old juniper, which was exhibited nationally in 1954, sold in 1981 for $2 million. As Japan's economy softened in recent years, prices declined but a Japanese five-needle pine sold two years ago for $600,000. A different tree changed hands in 2005 for $300,000.

So there is money in patience.

Metaldyne's strategy when we went private in 2000 was simply to transform our business model from a "component manufacturer" to a "assembly provider."

Our business and investment thesis was that there were above normal growth opportunities in the powertrain and chassis segments as OEM customers were interested in outsourcing more of this activity, and we would be impacted less by commodities coming from low cost countries.

We invest $750 million in capital equipment and facilities over a five year period, and invested over $200 million to acquire the New Castle operation from DaimlerChrysler. As you may know, the successful acquisition model that Metaldyne, DaimlerChrysler, and the UAW used has been studied heavily by OEMs, suppliers, and investors.

Everything we did was in line with our strategy, but we had to protect our house first. So in mid-2005 – not the ideal year for a divestment – but our fifth year of transformation, it was time to find a strategic partner to acquire our North American Forging operation. We divested forgings to help support our focus in modules, systems, and assemblies. We found an excellent partner in FormTech and with their leadership team they will do well.

Certainly, we would have been better off to divest the Forging group three or four years ago, but we simply weren't ready. The Forging operation was viewed externally as core to Metaldyne as we engineered, bid on, and won more and more value-add products.

In late 2004, Metaldyne was organized with centralized commercial functions. Sales and Purchasing were independent groups supported our Powertrain and Chassis businesses. The structure worked well in a less volatile commercial market. In early 2005, we formed a new group to coordinate both Purchasing and Sales. Given the exponential change in raw material prices, our first order of business was to repair the connectivity between our costs and the prices of our products

To do this, we developed specific product-by-product and customer-by-customer strategies for our entire company with all the supporting facts to substantiate what we were seeking. It is our view that the structure and mission of this group provided us with a competitive advantage as we were significantly more organized when we engaged in open communications with our customers and suppliers. In fact, there was one situation where Metaldyne lent certain experts to an advisory firm to help them de-mystify raw material cost matters for a vendor in distress.

The next step was to execute our customer strategies.

When we were formed Metaldyne was basically a metal processing collection of companies. When you look back in our history at MascoTech and Simpson we were mostly doing build-to-print work in formed or machined metal. Today there may be some of that still in production but it is winding down.

We focused on design. We focused on engineering. We focused on technology. Most of the products we make are technically intensive and help differentiate vehicle performance attributes. Although you never see them on the car. We saw an opportunity to create a global company and be more aggressive inside the engine, transmission and chassis and provide turnkey services and capabilities.

The space wasn't filled and we filled it.

We tend to not limit ourselves by where we've been and we see no limits on where we could go.

As Theodore Roosevelt said, "In any moment of decision the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing."

Well, Metaldyne made some hard decisions about what we would do, and not do.

As I said previously, when a 40 percent cost driver goes up 100 percent, you quickly are in a state where you our shipping dollars out the door. Metaldyne had a significant portion of annualized earnings at risk, we simply had a choice to make. We either had to have open and difficult conversations with all of our customers and suppliers about global raw material prices and appropriate economics, or watch the feeding frenzy of bankers, lawyers and advisors siphon the value of our enterprise, while the next team comes in and does the right thing.

One thing we were sure of…

Denial is a disease and arrogant denial is a fatal disease…and we were not in denial about out cost structure, nor were we arrogant about what had to be done.

First, we did what we could. We cut previously taboo costs, such as certain retiree medical programs, and focused on ringing all the efficiencies we could out of our manufacturing operations.

When we had discussions on raw material costs, paramount to our approach was operating in a fact-based and above board way. We didn't win any popularity contests in 2005, but we did not miss a beat. We performed rather well and now are seeing the benefits.

With respect to punitive actions…I'll be honest…we did see a few of these. In one case a group of forging products were resourced by a customer to another supplier prior to the sale of our forging operation. The Tier 1 customer that resourced Metaldyne is now moving these products back to the ex-Metaldyne facility because it could not achieve the technical performance and pricing promise from the alternative supplier.

How much does a “re-sourcing round-trip” cost the supply chain? I’m simply perplexed at how many punitive actions we see that are fiscally irresponsible in this industry.
I don’t think this is what Michael Porter had in mind in his classic book on Competitive Strategy.

Well what happened?

We quickly implemented our basic tactical plans through this period. We did not have the luxury of waiting a few quarters to see if things would change, as certain OEMs were asking most suppliers to do. While we were going through the healing process late in the third quarter, we started to see an incredible shift in the market.

First, suppliers that scoffed at Metaldyne’s approach now found themselves at risk and were scrambling to seek solutions. But, in some cases, the window had closed. Then as the fourth quarter of 2005 approached and we entered 2006, Metaldyne was seeing product awards come in at an above normal pace.

It seemed our customer base not only valued our products, technology, and prices, but also respected the stability we offered as we navigated through the incredible storm.

As you can see in this slide, over the past few years, Metaldyne has had continuous improvements in quarterly sales and EBITDA earnings. When you consider the industry challenges during this period, we are pretty proud of these results………..Our model is working.

Simply put, Metaldyne, like most companies, was faced with an incredible economic and market change. We followed the basic model, which helped guide us through

So where does Metaldyne go from here?

We’ve often said we would make a great public IPO story. We will grow both organically and through certain strategic alliances…Most of all we’ll stick to our strategic vision.

As *Sun Tzu* said in the Art of War “Nothing is more difficult than the art of maneuvering for advantageous positions.”

It’s easier if you stick to your plan.

That’s what Jeff Daniels did with the Purple Rose Theater and that’s what we are doing at Metaldyne.

Thank you.