

## Embracing Globalization

Presentation at 2007 APMA Annual Conference  
May 9, 2007

Thomas A. Amato  
EVP, Corporate Development & Chief Integration Officer,  
Asahi Tec Corporation  
EVP, Commercial Operations, Metaldyne Corporation

Thank you and good morning. It's a privilege to speak at this year's APMA Annual Conference.

Before we get started let me make one thing very clear. There is nothing I would like better than to see a Detroit Red Wings and Ottawa Senators Stanley Cup series. Perhaps the only difference between me and many of you here today is that I would rather see the red jerseys holding the Cup over their heads.....again.

No matter. These are two terrific teams. They have gotten to where they are because they know how to "work together to win" ...in essence they "collaborate as teammates".....something the auto industry needs to collectively accomplish.

The theme for this year's conference is "Building Strength through Collaboration." If you think about it, this can have different meanings depending on where you fit within the automotive industry.

For example, if you are an automotive OEM, the partnership you form with a local government when selecting a new assembly manufacturing site is critical. Both for OEMs and suppliers, using joint ventures to expand in local markets is just as critical. And, positive collaboration between a company and its workforce can be the difference in making a good company great.

The one common thread is that in any *collaboration* there has to be (1) a "need or opportunity", (2) more than one party, and, (3) for there to be success, both parties must enjoy a **winning** outcome.

Today I would like to share how we have used partnering with customers, labor, and the financial community to, not only **build strength**, but to **transform** our business model and ultimately shape our future.

As hockey great Wayne Gretzky said....."A **good** hockey player plays where the puck is. A **great** hockey player plays where the puck is going to be." Collaboration is what takes you from being a good player to being a Great One.

We take control of our destiny and put our company where the action is.

First some quick background on Asahi Tec. We are a Tokyo Stock Exchange publicly listed company which is headquartered in Shizuoka, Japan. We have annual revenues of \$2.7 billion, 10,000 employees, and have 55 facilities in 15 countries.

Through the Asahi Tec brand we design, manufacture and sell (1) ductile iron and aluminum cast parts for automotive, truck, and construction machinery OEMs, and (2) aluminum wheels for automobile and motorcycle OEMs. Through our Metaldyne brand we design, manufacture, and supply metal-based components, assemblies and modules for automotive powertrain and chassis applications.

Metaldyne was formed in late 2000 through a combination of MascoTech, Simpson Industries, and GMTI, and was privately held until early this year when Asahi Tec acquired Metaldyne in a transaction valued at approximately \$1.2 billion.

It is nearly impossible to speak of examples within Metaldyne's evolution without describing significant transactions, a few of which I will cover here.

First, after the successful integration of the three predecessor companies that became Metaldyne, in 2003 DaimlerChrysler, the UAW and Metaldyne structured a transaction that led to the transition of DaimlerChrysler's \$450 million New Castle operation to Metaldyne. This was no small feat. We accomplished the spin-off through two steps. First, through a joint venture for one year and then, ultimately, to a full sale.

What led up to the sale was DaimlerChrysler's interest in having strategic suppliers invest in components and sub assemblies while they focused on their vehicle line-up. There were also a number of other transactions DaimlerChrysler was exploring with other suppliers.

On the other hand, Metaldyne was interested in expanding its product breadth and building an alliance with DaimlerChrysler. Finally, the UAW was interested in maintaining its membership in New Castle. Therefore we had established "opportunities" for all parties.

When we embarked on our transaction discussions, New Castle supplied suspension products to **100 percent** of Chrysler, Jeep and Dodge platforms. It also had a revenue base that represented a 25 percent increase in Metaldyne's revenue. And there was a major program award that, under the "old" uncompetitive structure, was at risk of being awarded to another location. Needless to say, there was a great deal at stake for all constituents.

When DaimlerChrysler, Metaldyne, and the UAW met, we knew that there was no “blue print” for this model and that there was no room for failure. However, one thing was for sure, all parties were committed to partnering to accomplish a successful outcome: customer – supplier – labor.

So what was the result?

DaimlerChrysler was in fact able to sell New Castle to Metaldyne, which allowed DaimlerChrysler to send a positive signal on their strategy to their investors. The UAW supported and helped develop the architecture to a labor model that continues to be studied by many in the industry.

And for Metaldyne, the collaboration with DaimlerChrysler and the UAW, which led to the acquisition of New Castle, was incredibly transforming. Not only in a *direct* sense: yes, it increased our product breadth, added new technologies, was financially de-leveraging and increased our stake with an important customer.

But perhaps even more importantly, it was transforming in a peripheral way.

Let me describe further. The ability for Metaldyne to successfully structure, close and assimilate the New Castle operation, **instilled confidence** in our customer base, our supply base and with the financial community. This consequential event further allowed Metaldyne to attract capital to shape our business and do many other things.

So, on a number of levels – direct and indirect – this collaboration event was a success.

Now let me fast forward a few years. In fact, I would rather skip over the most recent period in our industry where material prices sky rocketed, certain supplier and buyer relationships moved from “collaboration” to “every one for themselves”, and many, many companies ended up as road kill, some of which remain the walking dead today.

That said, during the period where we were carefully integrating New Castle and subsequently navigating through the tumultuous period of the past few years, we realized that **something was on the horizon for which we needed to prepare**. A **sea change** was occurring in the industry and we needed to assess how and to what extent we could participate.

In a word ...”**Asia**”.

Of course, we like most suppliers, were focusing on enhancing our relationships and supply position with New Domestic and investing in Asia-based opportunities. For example, we partnered with Hyundai and launched a

dedicated plant in Korea to support local supply of a balance shaft module for their world engine program. We also had an order book that was filling with Honda and Toyota as they were growing their presence in North America and looking for **capable and stable suppliers**. However, these were marginal enhancements to our strategic direction and we felt we were not moving fast enough.

When you consider:

- 1) That vehicle production in Korea, China and India doubled in the last five years and is now almost equal to production in the U.S;
- 2) That, according to CSM Worldwide, Korea, China, and India combined will build 10.6 million vehicles this year while the U.S. will build 10.9million;
- 3) That not only will so many vehicles be built in Asia, they will also be developed there. In fact, CSM estimates more than 50 percent of all vehicle development will be done in the Asia-Pacific region by 2012.

We simply could not afford to miss the boat.

How could we leverage the credibility that we developed in the commercial and financial markets to participate with the estimated growth not only within Asia, but also the global growth driven by Asian OEMs?

We were looking for a **“Game Changer”**.

Well, as we continuously discussed the Metaldyne model with other companies and the financial community, an opportunity was presented that, driven by a global private equity sponsor, Ripplewood, and subsequently along with Asian based co-investors, Mitsui and Cho-Mitsui, the stage was set to merge Metaldyne into an Asia-based company.

As mentioned earlier, in January of this year Asahi Tec, a publicly-traded on the Tokyo Stock Exchange \$700 million supplier acquired Metaldyne, a \$2.0 billion supplier.

When you consider the global automotive supply sector, the Asahi Tec/Metaldyne combination is not like any other business model.

There are a number of classic reasons why transactions occur between companies. For example, (1) to diversify the customer base, (2) to expand global reach, or (3) to gain access to new markets, technologies, products, or capital.

**In fact, any one of these criteria can drive a transaction to completion.**

Yet, with the Asahi Tec/Metaldyne transaction, **all** of the criteria were present – **the “opportunity” was established.**

Through partnering with key stakeholders in Metaldyne, key stakeholders in Asahi Tec, and the financial and investment community, we were able to effect a transaction that:

Allowed both Asahi Tec and Metaldyne to diversify their global customer base, and with the forecasted order book, provide for what we believe to be an impressive balance of customer mix. This balance provides value to all stakeholders of Asahi Tec – customers, suppliers, employees, and investors.

It also balanced the manufacturing footprint of both companies. We now can move manufacturing around the globe with on-the-ground infrastructure in a much more efficient fashion.

Additionally, it facilitated the sharing of not only new and developing product technologies but also best practices as we base the “new Asahi Tec” on using the best of the best operating and financial management models from both companies.

And last, but certainly not least, it brought new capital into the combined company by accessing global financial markets.

I cannot emphasize enough how important the collaboration with the financial community is, so I will spend a few minutes to explain further.

First, as I mentioned earlier, we had the fortunate support of a private equity firm that invested nearly \$200 million of new equity to merge Metaldyne into Asahi Tec. The proceeds helped improve the balance sheet of the combined companies. Without this support this transaction would have been **reduced to just a good idea that could not be executed.**

Next, within only weeks of completing the merger, through Asahi Tec’s listing on the Tokyo Stock Exchange, we completed an equity issuance that contributed more than \$70 million of new cash to our company. That money was raised from global institutional investors. The net proceeds were used to further pay down debt.

Keep in mind that we closed this transaction only four months ago. Frankly, I’m not of aware of many other automotive suppliers that are able to raise equity capital today or of any other automotive suppliers that have been able to do two rounds of significant debt pay down since the beginning of 2007.

With the continued support of our global investors, we are not done yet.

We are contemplating a global debt refinancing. Within the combined companies we have nearly \$1 billion of debt, some of which is at a rate that can be improved upon or in a country where we could better balance with our global revenue. In essence, this is a step that would further improve our global cost of capital as we seek financing at the lowest rates around the world. The opportunity for us to take this next step by partnering with global banks is something that many companies our size only could dream about, yet it is already embedded in our financing strategy.

So as we were executing our strategy, which was based on some critical collaboration steps that led to transforming our company, we took a giant step to collaborate with stakeholders of both Asahi Tec and Metaldyne. **Now the landscape has forever changed.** While it's novel to look back at history, at Asahi Tec we are focused only on the future.

So where do we go from here?

As U.S. President Dwight Eisenhower once said, "Neither a wise man nor a brave man lies down on the tracks of history to wait for the train of the future to run over him."

We didn't either. We looked at the global transformation taking place today and wanted to be a leader, not a follower, as the flat world unfolded.

Currently we are focused on integrating Asahi Tec and Metaldyne. Of course, this is not without some challenge as we have both **corporate-cultural** and **international-cultural** uniqueness. That said, we started formally working on our Integration Plan prior to closing. Therefore, shortly after we closed the transaction earlier this year, the plan was set, it was supported by our global leadership team, and we hit the ground running.

We are already making concerted strategic decisions. We realize this is an opportunity to leverage strengths from each company as we consolidate systems, infrastructure, and processes. In addition to the financing steps, we have seen a number of "mini-wins," including (1) shoring up our R&D and engineering capabilities in Asia, (2) redirecting a product manufacturing opportunity into the existing Asian manufacturing footprint, and (2) enjoying joint activities on introducing product technology to the global market.

As I mentioned earlier, the success we enjoyed with our partners in the industry resulted in increased confidence by **all of our stakeholders**. I would be remiss if I did not provide some examples where we have collaborated with our important supply network.

As we have transitioned over the years from a component supplier to a finished product and assembly supplier, we obviously have seen many changes in our

supply network. For example, we now purchase forged-steel components in North America where, up until just over a year ago, we manufactured forged components internally. This was a step that only a few years ago may have been unthinkable by some in the industry.

Over time, it became incredibly clear that we needed to rely upon the strengths of our supplier partners to help our company grow and succeed. Although we invest a reasonable amount each year on capital, we simply do not have the resources ... nor does Microsoft for that matter... to invest in every opportunity that comes our way ... no matter how good.

Therefore, we are partnering more and more with suppliers globally to satisfy our desired growth objectives. In these cases, both parties enjoy a **winning outcome**.

The approaches with our supplier partnerships vary.

In one case, we are establishing a “plant-in-plant” joint venture in Asia with an important supplier. The JV will utilize space in one of our existing plants to manufacture a product to be used in an assembly operation. This will benefit all parties by saving both shipping costs and working capital, which ultimately translates to lower system costs and which drives overall growth potential for our suppliers and us.

In another case, we are developing supply opportunities in geographic regions that would otherwise not be on a supplier partner’s radar screen. As we invest in low-cost regions to satisfy our customers’ needs, the availability of **reliable** component or raw material supply is critically important to our success. Therefore, we have supplier partners that we are working with to develop their geographic expansion plans to fit with our growth profile. Again, both parties **win**.

These are just a few examples of collaboration events underway with our supply network. **It all starts with confidence and trust in each party’s ability to deliver** ... something we have been proud of over the past few years.

So as I mentioned earlier, we have used collaboration to transform our company. With where we see the global market developing and our commitment to participating in global growth within the industry, we will continue to partner as we advance forward.

There are two quotes I’d like to leave you with.

The first quote is from Andrew Carnegie. “Teamwork is the ability to work together toward a common vision ... the ability to direct individual accomplishments toward organizational objectives. It is the fuel that allows **common people to attain uncommon results.**”

The second quote is from Jack Welch, who simply said...."Change before you have to".

That's our mantra and thank you.