

Autos Snapshot

GM/Chrysler Production Cuts and Suppliers

Trading Thoughts

- Chrysler decision to not produce during bankruptcy and GM's decision to shut down most of NA production for 9 wks through early July is likely to exacerbate supplier liquidity problems, but the benefits of these deep cuts are worth the risks, in our view. We believe most of the cuts would have had to happen at some stage over the course of this year anyway to reduce bloated inventories. But a tactical benefit of doing such concentrated shutdowns came into light last week. As GM/Chrysler terminate franchise contracts with over one-quarter of their US dealer base, the carmakers want to be able to rapidly reallocate inventory of terminated dealers to surviving dealers to avoid the latter potentially flooding the market with fire-sale priced vehicles, something that could easily occur if the OEM factories were also trying to sell vehicles to surviving dealers during this period.
- The flip side of this is that suppliers will likely see a major working capital outflow when production suddenly resumes, likely in Q3.09, and some supplier bankruptcies are likely. We think most supplier bankruptcies will be concentrated at the Tier 2 and 3 levels, although the liquidity of a few Tier 1s will also become potentially very tight then (e.g., AXL) and others may strategically file (e.g., LEA). We continue to believe Treasury will not step in to provide direct liquidity to distressed suppliers given obvious administrative challenges and, more recently, given improving capital market conditions and signs that obtaining private DIP financing is no longer impossible (e.g., recent Hayes bankruptcy). Instead, Treasury will likely monitor the supply base and primarily rely on the purchasing arms of GM/Chrysler to decide/help the needy that they see as truly critical.

Stock Price Performance (last week) (source: Factset)

- **Top Losers:** AXL (-48%), LEA (-46%), DAN (-35%), GM (-32%), ARM (-27%), TRW (-23%), MGA (-20%), HTZ (-20%), TEN (-16%), GT (-15%), CTB (-14%), GNTX (-12%), F (-12%), BWA (-11%), JCI (-10%), ALV (-6%), SPX (-5%), GPC (-4%)

Consensus '09 EPS (last week) (source: FirstCall)

- **Top Gainers:** TEN (92%), TRW (76%), CTB (38%), BWA (7%), ARM (7%), AXL (2%), GM (1%)
- **Top Losers:** LEA (-3%), F (-2%), MGA (-1%)

See page 6 for analyst certification and important disclosures.

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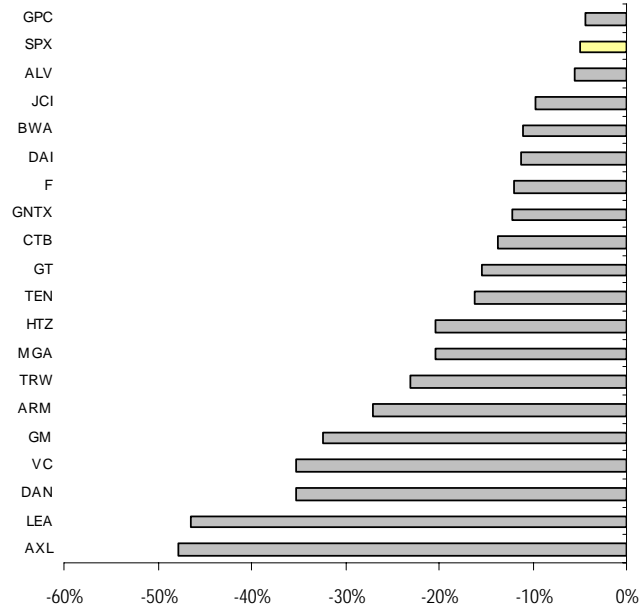
Recent US news

- Ford announced that it has agreed to sell 300 million shares of its common stock in a public offering at a price of \$4.75 per share for total gross proceeds of approximately \$1.4 billion. Ford also granted to the underwriters a 30-day option to purchase up to 45 million additional shares of common stock to cover over-allotments. (Company Website)
- Chrysler is planning to send its millions of existing vehicle owners vouchers worth \$1,000 that will be good through the end of June toward the purchase of a new car or truck. (Detroit News)
- GM has told 1,124 dealerships, most of them small and considered to be poor performers, that their GM franchise agreements likely won't be extended past October 2010. On the other hand, Chrysler identified 789 dealerships out of its 3,181 stores—about 25 percent—that will not become part of Chrysler's planned alliance with Fiat. (Automotive News)
- AutoNation's CEO said that decisions by GM and Chrysler to close more than 2,300 dealerships within the next 18 months will put pressure on pricing, on liquidating inventory, and on automotive real estate. (Automotive News)
- House Democrats said they had reached an agreement that could provide the struggling auto industry with billions of dollars in funding for advanced vehicles as part of a proposed plan to limit carbon emissions. Agreement would grant automakers 3 percent of the federal government's revenue from carbon emissions permits starting in 2012. (Detroit News)

Recent International News

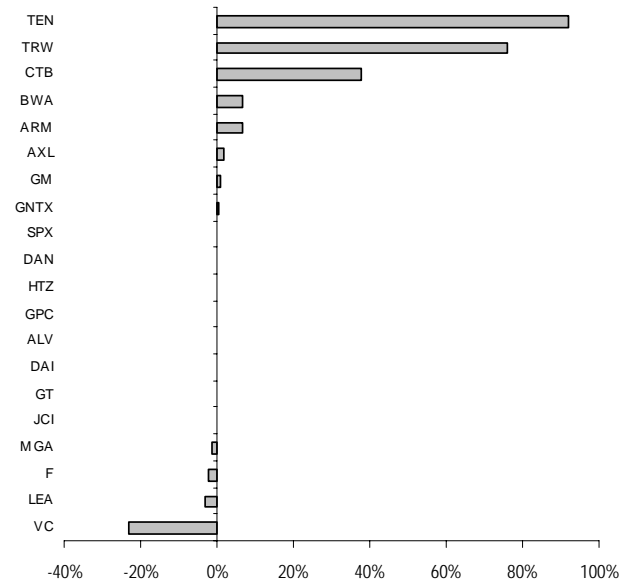
- VW has halted tie-up talks with Porsche, to raise Porsche's stake in VW to 75%, saying its smaller peer and major shareholder was not ready for a merger and was lacking several fundamental conditions for the discussions. (Automotive News)
- Nissan reported an annual loss (\$2.4B) for the fiscal year ended on Mar 31 on the back of the auto market collapse in the U.S. and unfavorable exchange rate, but top executives predicted the results would improve this year. (Detroit News)
- Toyota said it will suspend several production lines for an indefinite time at an engine factory in central Japan to adjust its output to slowing demand. Toyota plans to slash its global production for calendar 2009 by 28 percent to 6.68MM vehicles. (Detroit News)

Figure 1: Weekly Stock Performance: 8 May 09 through 15 May 09



Source: Factset

Figure 2: Consensus 09E EPS Change: 8 May 09 through 15 May 09



Source: Factset, FirstCall estimates

Valuation Sheet

Table 1: Global OEMs Valuation Multiples

| | Ticker | Rating | Currency | Price | Market Cap | Current EV | EV/ Sales | | EV/ EBITDA | | P/E | |
|------------------------|-----------|--------|----------|-------|------------|------------------|------------|------------|--------------|--------------|--------------|--------------|
| | | | | | | | 09E | 10E | 09E | 10E | 09E | 10E |
| GM | GM US | N | \$ | 1.1 | 664 | 16,171 | 14% | 11% | NA | 46.4x | NA | NA |
| Ford | F US | N | \$ | 5.5 | 17,668 | 36,073 | 36% | 34% | 41.8x | 5.2x | NA | NA |
| US Average | | | | | | | 25% | 23% | 41.8x | 25.8x | NA | NA |
| DAI | DAI GY | OW | € | 25.3 | 26,439 | 24,293 | 35% | 38% | 10.4x | 5.9x | NA | 77.1x |
| BMW | BMW GY | N | € | 24.5 | 15,546 | 15,126 | 35% | 36% | 5.8x | 4.5x | NA | NA |
| VW | VOW GY | N | € | 48.0 | 19,200 | 15,737 | 16% | 16% | 1.9x | 1.9x | 19.4x | 23.0x |
| PSA | UG FP | UW | € | 16.9 | 4,023 | 8,782 | 20% | 21% | 6.3x | 4.2x | NA | NA |
| Renault | RNO FP | UW | € | 22.9 | 6,833 | 9,339 | 32% | 33% | 24.1x | 7.7x | NA | NA |
| Fiat | F IM | N | € | 7.3 | 8,735 | 15,508 | 34% | 37% | 4.8x | 5.8x | NA | NA |
| Porsche | PAH3 GY | N | € | 39.1 | 6,857 | 6,841 | 128% | 103% | 8.4x | 6.3x | 25.0x | 9.8x |
| Europe Average | | | | | | | 43% | 41% | 8.8x | 5.2x | 22.2x | 36.6x |
| Toyota | 7203 JP | N | ¥ | 3560 | 12,378,311 | 11,198,544 | 62% | 58% | 13.8x | 6.6x | NA | 27.8x |
| Honda | 7267 JP | | | | | | | | | | 193.3 | |
| Nissan | 7201 JP | OW | ¥ | 2680 | 5,073,301 | 5,030,548 | 57% | 52% | 9.8x | 6.5x | x | 17.6x |
| Japan Average | | | | | | | 32% | 29% | 7.6x | 3.4x | NA | 59.4x |
| | | | | | | 6,184,120 | 50% | 46% | 10.4x | 5.5x | x | 34.9x |
| Hyundai | 005380 KS | | KW | 64200 | 15,622 | 12,722 | 44% | 39% | 4.5x | 3.7x | 12.7x | 9.6x |
| Kia | 000270 KS | | KW | 13100 | 4,454 | 9,247 | 59% | 55% | 7.6x | 6.6x | 13.8x | 9.5x |
| S.Korea Average | | | | | | | 51% | 47% | 6.0x | 5.2x | 13.3x | 9.6x |
| Global Average | | | | | | | 42% | 39% | 16.8x | 10.4x | 76.3x | 27.0x |

Source: Company data, J.P. Morgan estimates, Bloomberg. Prices as of COB 5/15/2009

Includes Preference shares market cap as well

Note EV Calculation: Market Cap + /(-) Net Debt/(Net Cash) + Unfunded Pension and Healthcare costs + Minorities - Affiliates at Market Value- Financial Company at Book Value. Net Debt, Pension, Healthcare cost, Financial company BV and Minorities are last reported figures.

Coverage: Himanshu Patel: GM, Ford; Ranjit Unnithan: BMW, Daimler, Fiat, Porsche, VW, Renault, Peugeot; Wan Sun Park: Hyundai, Kia; Takaki Nakanishi: Toyota, Honda, Nissan.

Table 2: Global Tire Valuation Multiples

| | Ticker | Rating | Currency | Price | Market Cap | Current EV | EV/ Sales | | EV/ EBITDA | | P/E | |
|-----------------------|-----------|--------|----------|-------|------------|------------|------------|------------|-------------|-------------|--------------|--------------|
| | | | | | | | 09E | 10E | 09E | 10E | 09E | 10E |
| Michelin | ML FP | | (€) | 37.3 | 5,495 | 11,079 | 72% | 71% | 6.1x | 5.0x | 29.7x | 12.4x |
| Bridgestone | 5108 JP | | (¥) | 1,365 | 1,143 | 1,762 | 67% | 64% | 6.0x | 5.1x | 56.3x | 17.4x |
| Continental | CON GR | | (€) | 18.9 | 3,186 | 5,269 | 25% | 24% | 2.4x | 2.0x | 32.0x | 8.8x |
| Goodyear | GT US | OW | (\$) | 11.2 | 2,673 | 8,258 | 52% | 49% | 5.6x | 4.6x | NA | 8.7x |
| Cooper | CTB US | OW | (\$) | 10.0 | 512 | 1,061 | 40% | 38% | 4.1x | 3.0x | NA | 7.7x |
| Nokian | NRE1V FH | | (€) | 12.5 | 1,578 | 1,680 | 192% | 182% | 8.8x | 7.3x | 20.6x | 13.6x |
| Hankook | 000240 KS | | (KW) | 14,05 | 0 | 2,230 | NA | 91% | 5.8x | 5.3x | 12.8x | 8.8x |
| Sumitomo | 5110 JP | | (¥) | 650.0 | 174 | 269 | 50% | 48% | 4.4x | 4.8x | 47.1x | 15.3x |
| Yokohama | 5101 JP | | (¥) | 413.0 | 145 | 307 | 66% | 66% | 6.3x | 6.3x | NA | 16.4x |
| Global Average | | | | | | | 71% | 68% | 5.5x | 4.7x | 33.1x | 13.4x |

Source: Priced as of COB 5/15/2009

*Market Cap & EV - ¥ and KW in billions, € and \$ in millions

Goodyear & Cooper are J.P. Morgan estimates, rest are I/B/E/S Consensus estimates.

Source: Company Data, J.P. Morgan estimates, Bloomberg

2009E, 2010E Continental nos are inclusive of VDO

Table 3: Global Auto Parts Suppliers Valuation Multiples

| Ticker | Rating | Currency | Price | Market Cap | Current EV | EV/ Sales | | EV/ EBITDA | | P/E | | |
|-------------------------------|---------|----------|-------|------------|------------|-----------|------------|------------|-------------|-------------|--------------|--------------|
| | | | | | | 09E | 10E | 09E | 10E | 09E | 10E | |
| Autoliv | ALV US | OW | \$ | 23.5 | 1,648 | 2,750 | 65% | 62% | 7.8x | 5.1x | NA | 26.2x |
| American Axle | AXL US | N | \$ | 2.1 | 95 | 1,496 | 90% | 73% | 8.3x | 5.2x | NA | NA |
| ArvinMeritor | ARM US | N | \$ | 2.3 | 162 | 1,924 | 38% | 37% | 10.8x | 7.5x | NA | NA |
| Borg Warner | BWA US | OW | \$ | 27.7 | 3,222 | 4,090 | 106% | 85% | 10.3x | 6.5x | 67.8x | 15.0x |
| Dana | DAN US | N | \$ | 1.5 | 232 | 1,228 | 25% | 22% | 5.1x | 3.1x | NA | NA |
| Gentex | GNTX US | N | \$ | 11.0 | 1,429 | 1,095 | 240% | 212% | 14.5x | 11.2x | 57.8x | 28.6x |
| Genuine Parts Corp. | GPC US | N | \$ | 32.1 | 5,076 | 5,744 | 57% | 55% | 7.0x | 6.8x | 13.6x | 12.8x |
| Johnson Controls | JCI US | N | \$ | 18.3 | 10,844 | 15,942 | 55% | 51% | 13.0x | 7.4x | 69.2x | 14.6x |
| Lear | LEA US | N | \$ | 1.3 | 102 | 2,647 | 28% | 24% | 12.5x | 5.6x | NA | NA |
| Magna | MGA US | N | \$ | 30.9 | 3,455 | 2,332 | 14% | 12% | 15.0x | 2.7x | NA | 30.8x |
| TRW | TRW US | N | \$ | 7.8 | 789 | 3,531 | 34% | 32% | 12.0x | 7.1x | NA | NA |
| Tenneco | TEN US | N | \$ | 5.3 | 240 | 1,949 | 43% | 37% | 7.3x | 4.5x | NA | NA |
| US Average | | | | | | | 50% | 44% | 9.9x | 5.6x | 52.1x | 21.3x |
| Beru | BZL GR | | € | 78.8 | 790 | 772 | NA | NA | NA | NA | NA | NA |
| Brembo | BRE IM | | € | 4.0 | 269 | 529 | 59% | 58% | 4.9x | 4.6x | 16.2x | 11.0x |
| Continental | CON GR | | € | 18.9 | 3,186 | 5,269 | 25% | 24% | 2.4x | 2.0x | 32.0x | 8.8x |
| Faurecia | EO FP | | € | 7.8 | 698 | 2,555 | 26% | 25% | 8.8x | 5.6x | NA | NA |
| GKN | GKN LN | | € | 1.1 | 790 | 1,429 | NA | NA | NA | NA | 73.3x | 9.7x |
| Tomkins | TOMK LN | | € | 1.6 | 1,390 | 1,893 | NA | NA | 4.4x | 3.7x | 15.3x | 9.6x |
| Valeo | FR FP | | € | 14.1 | 1,122 | 2,722 | 37% | 36% | 4.5x | 3.5x | NA | NA |
| Europe Average | | | | | | | 37% | 36% | 5.0x | 3.9x | 34.2x | 9.8x |
| US& Europe Average | | | | | | | 48% | 44% | 8.6x | | 5.2x | 43.2x |

Source: Priced as of COB 5/15/2009

*Market Cap & EV in € millions for GKN & Tomkins, ALV, AXL, ARM, BWA, DAN, GNTX, GPC, JCI, LEA, MGA, TRW, TEN in \$ millions, rest in € millions

Beru, Brembo, Continental, Faurecia, GKN, Tomkins and Valeo are I/B/E/S Consensus estimates rest are J.P. Morgan estimates

Source: Company Data, J.P. Morgan estimates, Bloomberg

2009E, 2010E Continental nos are inclusive of VDO

Table 4: Global Auto Retailers Valuation Multiples

| Ticker | Rating | Currency | Price | Market Cap | Current EV | EV/ Sales | | EV/ EBITDA | | P/E | | |
|-------------------------|---------------|----------|-------|------------|------------|-----------|------------|------------|--------------|-------------|--------------|--------------|
| | | | | | | 08 | 09E | 08 | 09E | 08 | 09E | |
| AutoNation | AN US Equity | N | \$ | \$16.0 | 2828 | 5904 | 42% | 35% | 10.6x | 7.9x | 16.1x | 14.9x |
| Group 1 Automotive. | GPI US Equity | OW | \$ | \$17.4 | 419 | 1783 | 31% | 31% | 13.9x | 11.3x | 24.4x | 13.2x |
| Penske Automotive Group | PAG US Equity | OW | \$ | \$10.9 | 999 | 3558 | 30% | 33% | 11.3x | 12.4x | 10.2x | 14.5x |
| Sonic Automotive | SAH US Equity | - | \$ | \$7.0 | 280 | 1945 | 38% | 33% | 13.2x | 10.3x | 14.2x | 8.9x |
| CarMax | KMX US Equity | - | \$ | \$10.5 | 2321 | 2653 | 42% | 40% | 16.3x | 11.0x | 44.8x | 22.2x |
| Lithia Motors | LAD US Equity | - | \$ | \$5.0 | 103 | 250 | 14% | 13% | 6.0x | 5.0x | 43.3x | 15.8x |
| Average | | | | | | | 33% | 31% | 11.9x | 9.6x | 25.5x | 14.9x |
| Hertz | HTZ US Equity | N | \$ | \$7.0 | 2270 | 12648 | 148% | 177% | 4.1x | 4.7x | 16.8x | NA |

Source: Priced as of COB 5/15/2009

CarMax and Lithia Motors are Bloomberg Consensus estimates rest are J.P. Morgan estimates

Source: Company Data, J.P. Morgan estimates, Bloomberg.

Debt, cash, pension are latest reported

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