



**MICHIGAN**  
ECONOMIC DEVELOPMENT CORPORATION  
THE UPPER HAND

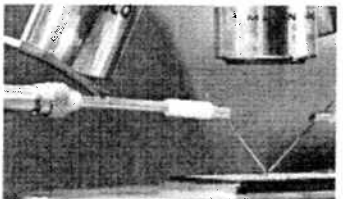


# MEDC Diversification Initiative

June 17, 2009



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# State of Auto Supplier Industry

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- **40-50% of automotive suppliers face bankruptcy in the coming months**

## **Causes**

1. Frozen credit markets, which caused the entire automotive downturn
2. Bankruptcies of Chrysler and General Motors

**Combined, these two forces have resulted in banks red-lining the automotive sector. Even strong, healthy suppliers cannot acquire a loan in the current economic environment.**

- 12% of automotive suppliers believe they will file for bankruptcy given the current environment, according to a recent MEMA survey. Another 37% said their ability to stay in business depends on the availability of financing.

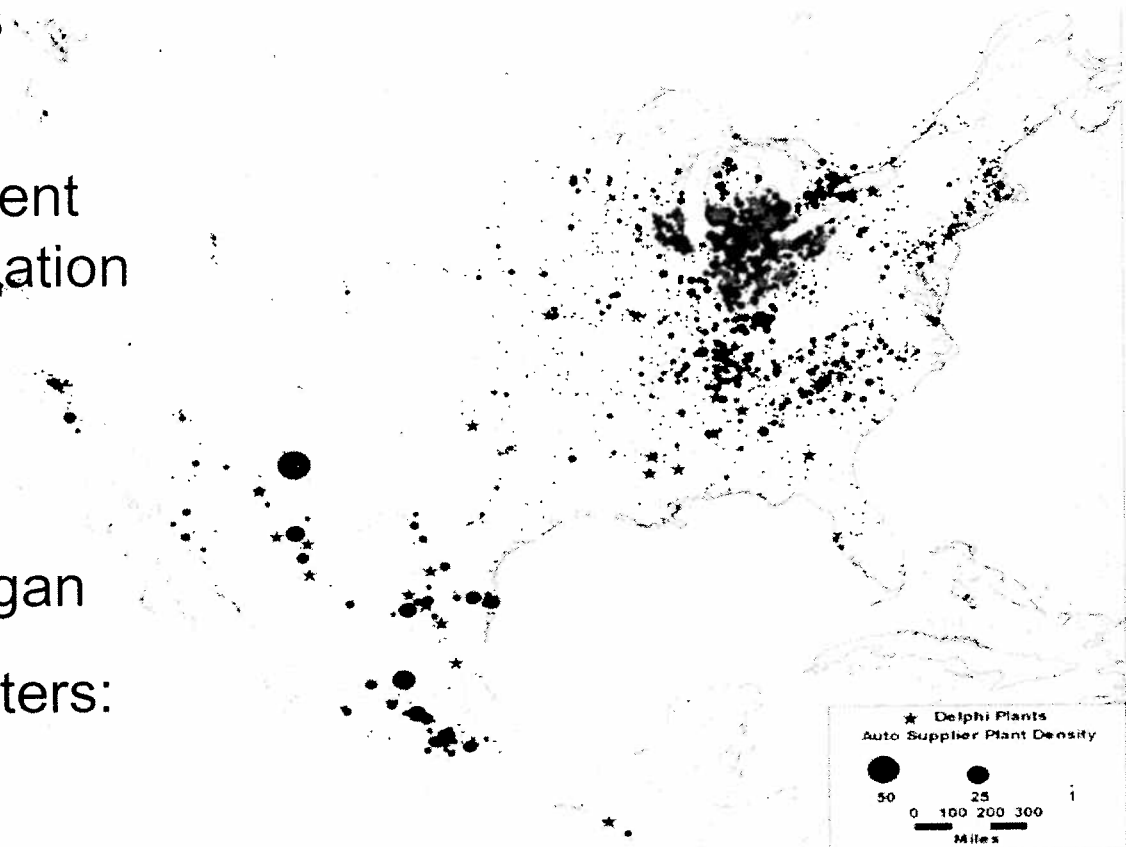
# State of the Auto Supplier Industry (cont.)

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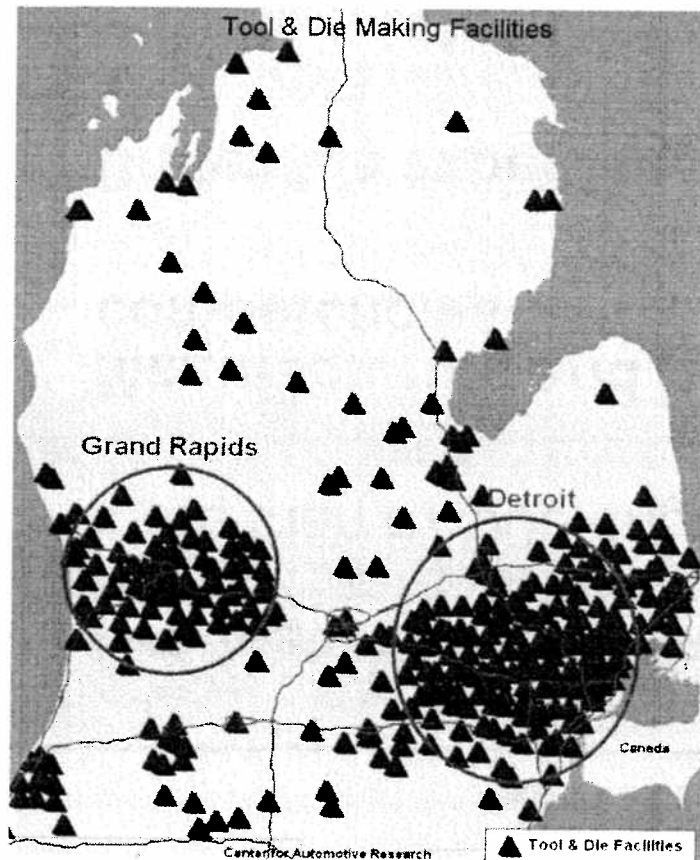
- In the best case scenario, GM and Chrysler emerge from bankruptcy and go back online in 90 days.
- **Supplier orders will crash during this period, resulting in a black hole that lags the automakers' recovery.**
- Without financing, as much as half those suppliers, including historically profitable ones, will not exist when the eventual upturn begins.
- Instead, bankruptcy auctions will result across the nation, especially in Michigan, on the doorsteps of failed suppliers.
- The beneficiaries will be China and India, the most likely candidates to succeed the U.S. in supplying the automakers when the upturn begins. They will use our old equipment, which they will have purchased at cents on the dollar.

# Auto Supplier Industry in Michigan

- **60%** of auto suppliers are in Michigan
- **25%** Motor & Equipment Manufacturers Association (MEMA) Members in Michigan
- **20%** of tool & die makers work in Michigan
- Two main tooling centers:
  - Detroit
  - Grand Rapids



# Michigan: Center of North American Tool & Die Industry



- 1 out of every 5 tool & die makers work in Michigan
- Two main tooling centers
  - Detroit
  - Grand Rapids

# Skilled Workforce

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- **Graduate more engineers than 46 other states** and home to the 4<sup>th</sup> largest high tech workforce in U.S. Michigan has more than 87,000 engineers.
- **Manufacturing and process engineering are core competencies**
- **Statewide expertise in Six Sigma Quality systems**
- **700+ potential wind energy suppliers** – 250+ engaged in assessment and 30+ supplying components/services

# World Center for Industrial R&D

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- **Michigan is second in the nation in industrial R&D** spending as a percentage of gross state product
- Major automotive suppliers are beginning to diversify into the **wind** energy market along with **solar, defense, aerospace** and **medical device** fields
- Home to more than **330 national and international R&D centers**
- Home to **NextEnergy**, one of the nation's leading research catalysts and business accelerators for alternative and renewable energy

# Supplier Diversification Underway

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- **Monthly summits** to educate manufacturers on diversification opportunities and prepare them for new lines of business
- **\$3M EDJT** to assist in recertification
- **900+ manufacturers** in Michigan's Renewal Energy supplier network
- **20+ supplier match making events** and **250+ organized private meetings**



# Summit Schedule

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- **Six to date:**
  - **Troy**, Oakland County (February 5)
  - **Grand Rapids**, The Right Place (February 18)
  - **Lansing**, Prima Civitas (March 18)
  - **Dearborn**, Wayne County (April 15)
  - **St. Clair Shores**, Macomb County (May 20)
  - **Southfield**, Minority Manufacturing Summit (May 26)

Next seven scheduled in **Saginaw, Traverse City, Kalamazoo, Flint, Muskegon, Zeeland and Rochester Hills** throughout 2009

# Summit Success To Date

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- > 1,300 event attendees
- > 650 of individual companies attending
- 190 completed surveys = 25 percent rate of return
  - Continue on current return rate estimate, achieving 400 companies served by December of this year
- 29 EDJT grant awards
- \$237k in EDJT and \$498k in training plans to date

*\*figures do not include recent summit*

# Burr Tool Inc.

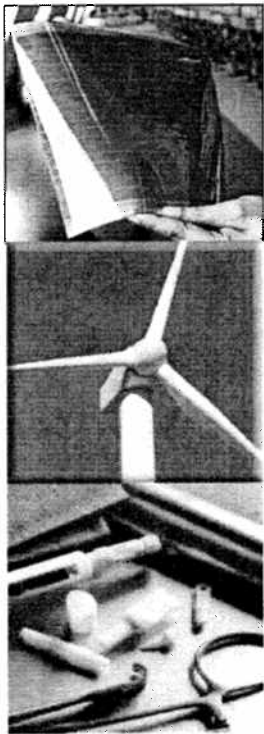
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- Attended Grand Rapids, The Right Place Summit on February 18
- Survey was completed on March 4
- Survey was reviewed and IE referral was made by BDM on March 7
- The grant was executed on April 8
- AWEA matchmaking took place in early May through NextEnergy
- Burr Oak currently has a bid opportunity with Gamesa.
- Training with NextEnergy will be launched over the next month

# Diversification Success To Date

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Match making events over the past 2 years between renewal energy product producers and Michigan manufacturing firms have resulted in:



- \$377 M in contracted business
- Additional \$3 B of business currently being quoted
- 1,145 manufacturing jobs positively affected, added/retained
- \$80.5 M invested in facilities and equipment

# Financial Challenges

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- **Declining collateral values**
  - Typically 80% over past 18 months
- **Declining cash flows**
  - Due to declining revenues and industry uncertainty
- **Inability to finance receivables**
  - Due to Chrysler bankruptcy and GM bankruptcy threat
- **Red lining of banks by sector and geography**

*“It is estimated that OESA members have \$8B in unmet financial needs”* -- Original Equipment Supplier Assoc.

# MSDF Solution

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- **Cash Flow Problem → Loan Participation Program**
  - Cash flow enhancements
  - Little to no interest payments for specified time
- **Collateral Shortfall → Collateral Support Program**
  - Supply cash collateral accounts to lending institutions, which will cover collateral shortfall in case of default
  - Strengthens borrower's collateral position
- **\$1-2 B investment through the MSDF will leverage at least an additional \$1-2 B in private investment to prevent the loss of 150,000-200,000 Michigan workers**

# MSDF Structure

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- **MEDC is incorporating an SPV that will act as a conduit for Treasury to provide private lenders with funds to support loans to viable suppliers.**
- **Relies on private lender underwriting and discipline.**
  - Deals will be introduced and led by private lenders
  - Has the advantage of leveraging bank dollars and expertise
- **The SPV qualifies as a “financial institution” under TARP.**
  - The SPV will hold and distribute funds akin to a traditional “financial institution.”

# Banking Support

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- This program has been developed with the help of nearly 20 banks and the Michigan Bankers Association
- Capitalized by MSF with \$12million
- Several banks have already brought deals to the pipeline



# Questions?

