

SECTION X

INDUSTRY STRUCTURE

General

The automotive aftermarket is a segment of the much larger automotive parts and components industry, which serves both original equipment manufacturers (OEMs) as well as the aftermarket (repair and replacement parts). Of course, the motor vehicle parts industry is itself a part of the vast worldwide motor vehicle industry. Since the vehicle producers are at the top of the chain, their decisions and priorities necessarily filter down through the general parts and components industry to the automotive aftermarket. Thus, for example, the general trend toward consolidating the number of suppliers to the global motor vehicle industry has not only impacted that level of the industry, but also the automotive aftermarket as well.

It is not uncommon for manufacturers of automotive parts and components to be suppliers to both the OEM and aftermarket segments of the industry. After all, motor vehicle production is a cyclical business which is sensitive to changes in the overall economy, and a general economic slowdown or erosion in buying power undercuts the ability of consumers to purchase new vehicles. In such times, consumers tend to spend more on repair and replacement parts in order to keep an older car going, rather than buying a new one. To a degree, then, the aftermarket offers some parts and components producers a slight hedge against the cyclicity of the new vehicle market.

Another example of an OEM trend filtering down to the aftermarket is the greater emphasis now being put on modules. Rather than supplying components to the OEM producers, which then perform the bulk of the vehicle construction activity, automakers are increasingly looking for companies (or alliances of companies) which can deliver entire modules -- collections of components already pre-assembled into a module -- e.g., a dashboard module or a seating module or a chassis module. In this way, the automakers reduce the number of outside suppliers with which they must deal, lower inventory costs, reduce the number of personnel needed and improve productivity, since much of the work is done by the primary suppliers. Ultimately, this will likely result in the emergence of a small number (perhaps several dozen worldwide) of very large companies which assemble all the various components into groups of modules for delivery to the OEMs. The remaining suppliers will be acquired by the larger (Tier 1) module suppliers or will become Tier 2 suppliers, staking out market niches supplying the Tier 1 companies.

The primary effect this trend will have on the aftermarket will be resulting consolidation of auto parts manufacturers. As the number of OEM suppliers declines, so too will the aftermarket segment of the industry become more concentrated. In addition, the desire on the part of the largest producers to acquire smaller companies, in order to become more desirable suppliers to the OEMs, will also offer some of these companies an opportunity to grab a much larger piece of the aftermarket than was previously possible.

Another side effect of the ongoing consolidation in the auto parts industry was the decision taken by several OEMs to divest their in-house parts production operations. Both Visteon (Ford) and Delphi (General Motors) have been spun off recently, and Fiat is currently looking to divest its Magneti Marelli operation as well. The entry of these large, newly formed independent firms is certain to have an effect on the automotive aftermarket, due to their huge size, increasing focus on the aftermarket (they were, after all, primarily suppliers to the OEMs prior to their independence) and worldwide operations.

Industry Composition & Market Share

In spite of the ongoing trend toward industry consolidation and the string of acquisitions which have been completed, there are still thousands of aftermarket suppliers of all sizes competing against one another. The issue is further clouded by the fact that many of the large OEM suppliers also compete in the aftermarket. Competitors range from huge, multinational corporations which serve both the OEM and aftermarkets on a worldwide basis to small, local producers which supply only a few parts for a particular car model. The latter are much more prevalent in developing countries, of course, and in any case do not really have a serious impact on the industry as a whole.

The automotive aftermarket remains largely fragmented, however, for a number of reasons. For example, in some markets, consumers tend to demand original replacement parts, while in others they are very price sensitive and exhibit little or no brand loyalty. Vertical integration has been a significant factor, as some OEMs had in-house parts operations which generally supplied replacement parts as well. This trend seems to be on the wane, however, as several of the largest in-house suppliers have

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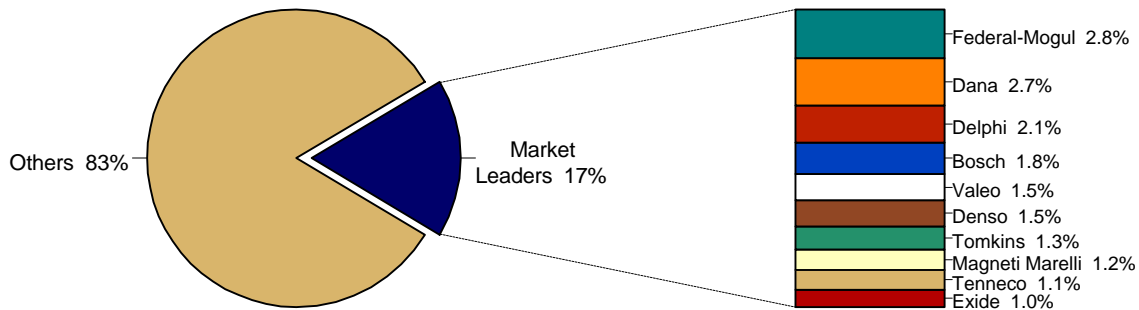
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been spun off. The trend toward specialization in specific systems has historically led to fragmentation, as different companies exhibited different core competencies. However, this factor seems to be diminishing as well, due to the emergence of the new breed of extremely large primary suppliers. As a result of all these factors, the industry is expected to exhibit gradual consolidation into a smaller number of companies, with the players at the top holding a larger share of the market.

The largest suppliers to the automotive aftermarket on a worldwide basis include Bosch, Dana, Delphi Automotive Systems, Denso, Exide, Federal-Mogul, Magneti Marelli (Fiat), Tenneco, Tomkins and Valeo. A number of other producers are also important, including Aisin Seiki, Akebono Brake, ArvinMeritor, AlliedSignal (now part of Honeywell), Eaton, Johnson Controls, Siemens, TRW, VARTA, Visteon and Yuasa. However, even the largest competitors control less than three percent of the overall market, and the top ten control only about 17 percent of total demand.

The largest producers of automotive aftermarket products are located in the developed countries. Of the top ten, five -- Dana, Delphi, Exide, Federal-Mogul and Tenneco -- are located in the US, while France (Valeo), Germany (Bosch), Italy (Magneti Marelli), Japan (Denso) and the United Kingdom (Tomkins) are each home to one. Most of the next tier of producers are also located in the developed countries, primarily to serve the OEM market as well as the reasonably developed aftermarket segment. However, production will increasingly be located in developing markets, although these new operations are more likely to be units of the large multinational producers, rather than indigenous producers.

**CHART X-1
WORLD AUTOMOTIVE AFTERMARKET PRODUCERS MARKET
SHARE, 2000
(US \$107.2 billion)**

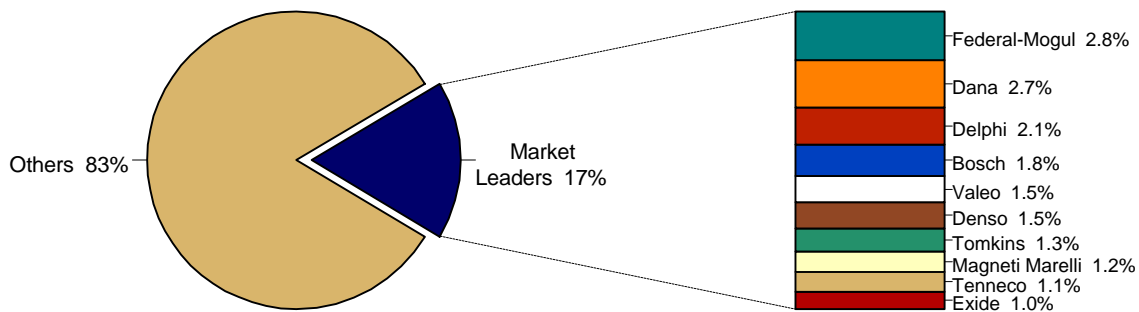


Industry Restructuring

There have been a number of asset sales in the worldwide automotive aftermarket in recent years, a result of the ongoing consolidation in the OEM auto parts market, which is necessarily having a similar effect on the aftermarket. Over the last several years, there have been more than 100 acquisitions and 60 joint ventures in the global auto parts industry. Although not all of these significantly affect the aftermarket, it is clear that the ongoing trend toward consolidation in the OEM segment of the market is impacting the aftermarket as well.

Of particular importance were the spin offs of Delphi Automotive and Visteon from General Motors and Ford, respectively. Now freed from the limitations of being owned by an automaker, these companies are able to not only increase their sales to competing car companies, but

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to the aftermarket as well. Although both have been serving the aftermarket for some time, their participation was limited primarily to repair parts for dealers and other authorized repair businesses. Similarly, Fiat is divesting its in-house parts subsidiary -- Magneti Marelli -- although that is being accomplished via a series of asset sales rather than a spin off.

Both Visteon and Delphi Automotive are augmenting their traditional OEM business by moving heavily into the aftermarket. Visteon has already made several acquisitions, and is set to make more, particularly in Western Europe. Delphi has moved more cautiously into the acquisition arena, but several moves have been discussed in the press, including the possible acquisition of a stake in Valeo SA, the leading French producer of auto parts. German competitors ThyssenKrupp and Siemens, Japanese competitor Denso and US supplier Johnson Controls are also thought to be interested in Valeo. The interest swirling around Valeo was fostered by declines in the stock market, which knocked off about one-quarter of the value of the company's stock, making it a more attractive acquisition candidate. In addition, leading suitors such as Delphi Automotive and Visteon (and possibly Denso) are known to be looking for strategic acquisitions in Western Europe.

The following table lists a number of acquisitions which have taken place in the world automotive aftermarket products business in recent years. The table is not intended to be all-inclusive, rather, it is illustrative of the types of acquisitions which are common in the industry.

TABLE X-1

SELECTED ACQUISITIONS & DIVESTITURES

Company	Acquiring	From Whom	Date
AlliedSignal (US)	Honeywell (US -- automation & control systems)	--	12/99
BC Partners (MIV Acquisition -- US)	Mark IV Industries (US -- automotive & industrial components)	--	9/00
Bosch (Robert) (Germany)	50.1% interest in Zexel (Japan -- automotive parts)	--	4/99
Continental (Germany)	TEMIC TELEFUNKEN Microelectronic (Germany -- electronic components)	DaimlerChrysler (Germany)	4/01 (agrmt)
Cooper Tire & Rubber (US)	Standard Products (US -- highly engineered polymer-based products)	--	10/99
Cooper Tire & Rubber (US)	Siebe Automotive (US -- auto fluid handling sub-systems & components)	Invensys (UK)	1/00
Dana Corporation (US)	European medium & heavy propeller shaft business	GKN plc (UK)	1/00

Source: The Freedonia Group, Inc.

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TABLE X-1 (continued) SELECTED ACQUISITIONS & DIVESTITURES			
Company	Acquiring	From Whom	Date
Dana Corporation (US)	automotive axle manufacturing & stamping operations	Invensys (UK)	7/00
Dana Corporation (US)	30% interest in GETRAG Getriebe und Zahnradfabrik Hermann Hagenmeyer (Germany - transmissions, axles & transaxles)	--	11/00
Dana Corporation (US)	49% interest in North American operations (transmissions, axles & transaxles)	GETRAG Getriebe und Zahnradfabrik Hermann Hagenmeyer (Germany)	11/00
Delphi Automotive Systems (US)	spun off	General Motors (US)	5/99
Delphi Automotive Systems (US)	Lucas Diesel Systems (US -- gas & diesel fuel injection equipment)	TRW (US)	1/00
Delphi Automotive Systems (US)	Automotive Products Distribution Services business (UK -- aftermarket products, & chassis & drivetrain components)	Automotive Products Group (UK)	2/00
Delphi Automotive Systems (US)	Vehicle Switch/Electronics division (US -- mechatronic switches)	Eaton (US)	3/01

Source: The Freedonia Group, Inc.

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TABLE X-1
(continued)
SELECTED ACQUISITIONS & DIVESTITURES

Company	Acquiring	From Whom	Date
Delphi Automotive Systems (US)	advanced disc system brake technology	Federal-Mogul (US)	3/01
Denso (Japan)	24% interest in Poong Sung Electric (South Korea -- fuel pumps, small motors & electrical automotive equipment)	--	10/00
Denso (Japan)	Thermal Systems division (Italy -- automotive air conditioners & radiators)	Fiat (Magneti Marelli SpA -- Italy)	11/00 (agrmt)
Denso (Japan)	remaining 75% interest in Magneti Marelli Climatizzazione (Italy -- air conditioners, heaters, radiators & vehicle comfort items)	Fiat (Magneti Marelli SpA -- Italy)	4/01
Deutsche Bank (GOPLA Beteiligungs-gesellschaft -- Germany)	89.7% interest in VARTA (Germany -- batteries)	--	12/00
Eaton (US)	spun off 18% of Axcelis Technologies (US -- semiconductor equipment)	--	7/00

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TABLE X-1 (continued) SELECTED ACQUISITIONS & DIVESTITURES			
Company	Acquiring	From Whom	Date
Eaton (US)	spun off remaining 82% interest in Axcelis Technologies (US -- semiconductor equipment)	--	12/00
Egana (Spain)	manufacturing site (Spain)	Robert Bosch (Germany)	1/01 (agrmt)
Exide (US)	GNB Technologies (US -- automotive & industrial batteries)	Pacific Dunlop (Australia)	9/00
Fiat (Magneti Marelli SpA -- Italy)	SEIMA (Italy -- automotive lighting systems)	--	6/00
General Electric (US)	Honeywell International (US -- aerospace, automation & control, power & transportation, & performance materials products)	--	10/00 (agrmt)
GKN plc (UK)	35% interest in Albarus Transmissoes Homocineticas (Brazil -- constant velocity joints & driveshafts)	Dana Corporation (Dana Albarus -- Brazil)	9/00
GKN plc (UK)	30% interest in Unidrive (Australia -- constant velocity driveshafts & propeller shafts)	Invensys (UK)	10/00

Source: The Freedonia Group, Inc.

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SELECTED ACQUISITIONS & DIVESTITURES

Company	Acquiring	From Whom	Date
GKN plc (GKN Japan)	manufacturing, machining & assembly operations for constant velocity joint driveshafts (Japan)	Nissan Motor (Japan)	11/00
ITT Industries (US)	Man-Machine Interface unit (US -- switch arrays, keypads & related assemblies)	TRW (US)	2000
Johnson Controls (US)	controlling interest in Ikeda Bussan (Japan -- seating products)	--	9/00
Johnson Controls (US)	Gylling Optima Batteries (Sweden -- high-performance lead-acid batteries)	--	8/00 (agrmt)
Lear (US)	UT Automotive (US -- automotive electrical distribution systems & interior products)	United Technologies (US)	5/99
Leoni (Germany)	cable plant & related development, manufacturing and marketing activities (Germany -- automotive wires & components)	Siemens AG (Siemens Automotive -- Germany)	12/99
Midas (US)	Progressive Automotive Systems (US -- software systems for automotive professionals)	--	1/01

Source: The Freedonia Group, Inc.

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TABLE X-1 (continued)			
SELECTED ACQUISITIONS & DIVESTITURES			
Company	Acquiring	From Whom	Date
Meritor Automotive (US)	additional 20% interest in Shanghai Hua Wen Exhaust Systems (China)	Xian Hua Group (China)	2/00
Meritor Automotive (US)	Arvin Industries (US -- automotive equipment)	--	7/00
Meritor Suspension Systems (US)	Tempered Spring (UK -- suspension system parts)	--	2/00
Motorola Incorporated (US)	technical assets of Liikkuba Systems International (US -- in-vehicle navigation & traveler information systems)	--	2/00
Qualitor (US)	Anstro (US -- car & truck brake parts)	--	8/99
Renault (France)	approximately 37% of Nissan Motor (Japan -- automobiles & components)	--	5/99
Rheinmetall Group (Kolbenschmidt Pierburg -- Germany)	mechanical components activities	Fiat (Magneti Marelli SpA -- Italy)	1/00
SAIA-Burgess Electronics Holding (Switzerland)	Ledex & Dormeyer Actuation Products (US -- automotive actuation products)	TRW (US)	12/00

Source: The Freedonia Group, Inc.

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SELECTED ACQUISITIONS & DIVESTITURES

Company	Acquiring	From Whom	Date
Sequa (ARC Automotive Italia)	air bag inflator inventory & equipment	BAG SpA (Italy)	2/01
Siemens AG (Osram Sylvania -- US)	Motorola Lighting (US -- automotive lighting products)	Motorola Incorporated (US)	3/00
Siemens AG (Germany) & Bosch (Robert) (Germany)	Atecs Mannesmann (Germany -- automotive & engineering products)	Vodafone Group (Mannesmann AG -- Germany)	4/00 (agrmt)
ThyssenKrupp Automotive (Germany)	51% interest in Sistemi Sospensioni (Italy -- suspension systems & shock absorbers)	Fiat (Magneti Marelli SpA -- Italy)	3/01 (agrmt)
TMD Friction Holding (Germany)	management buy-out of BBA Friction (Germany -- brake discs, pads & shoes, & drum brake linings)	BBA Group (UK)	8/00
Tomkins (UK)	ACD Tridon (Canada -- windshield wiper systems & parts; hose clamps & other automotive parts)	Devtek (Canada)	6/99
Tower Automotive (US)	17% interest in Yorozu (Japan -- automotive stamping parts & other components)	Nissan Motor (Japan)	2000

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TABLE X-1 (continued) SELECTED ACQUISITIONS & DIVESTITURES			
Company	Acquiring	From Whom	Date
Toyota Motor (Japan)	remaining 49% interest in Toyota GB (UK -- automotive components & vehicles)	Inchcape (UK)	7/00 (agrmt)
TRW (US)	LucasVarity (UK -- automotive, diesel engine & aerospace products)	--	5/99
Visteon (US)	spun off	Ford Motor (US)	6/00
Visteon (US)	LTD Parts (US -- remanufactured starters & alternators)	--	12/00
Vodafone Group (UK)	Mannesmann AG (Germany -- automotive, engineering, telecommunications & tube products)	--	4/00
Wind Point Partners (Qualitor -- US)	aftermarket-related businesses	MascoTech (US)	5/99

Source: The Freedonia Group, Inc.

Marketing & Distribution

The marketing of automotive parts and components is a very important aspect of the business. However, there are considerable differences in the way that OEM and aftermarket products are marketed. OEM products are sold directly to a small number of buyers (the automakers) and competitive factors include cost competitiveness,