

KLPH

Supplier Analysis and Evaluation Methodology

Overview

KLPH has devised a unique methodology for analyzing and evaluating companies that enables us to quickly identify company financial and managerial strengths and weaknesses in the short (two months), medium (two months to a year), and longer term (more than a year). Our evaluation will include analyses and recommendations with respect to potential GM courses of action to address financial or operational issues that could negatively impact parts supply to GM. The base analysis and evaluation methodology used by KLPH is as follows:

Short and Medium Term Analysis

1. *Cash Flow (2 months) – Analyze weekly parts releases and check book disbursements to determine short-term cash solvency.*
2. *Cash Flow (Full Year) – Develop monthly analysis to determine company viability over a one-year time horizon.*
3. *Balance Sheet – Prepare industry-comparable ratio analysis to assess the ability of the company to generate additional cash resources from its current asset base. Prepare company liquidation analysis to assess potential creditor exposure.*
4. *Credit Agreements – Review Borrowing Base and Debt Covenants to ascertain current debt capacity. Work with financial sources to improve borrowing or financing alternatives.*
5. *Year-To-Date Income Statement – Develop a list of cost or expenses that could be reduced or eliminated to allow for greater cash flow in the near term.*
6. *Production Capacity – Assess ability of company to meet ongoing parts requirements and to build future parts banks. Forecast potential additional cash required to accomplish bank builds.*
7. *Trend Analysis – Review prior years to uncover potential unfavorable trends that may lead to financial insolvency using ratio and Z-type analysis.*

Short and Medium Term Evaluations

1. *Deliver summary assessment of company viability.*
2. *Provide recommendations on alternative strategies including but not limited to:*
 - A. *Impact of a new business award and/or increase in existing volumes.*
 - B. *Amount and timing of a possible cash infusion to carry a potentially viable supplier over the short-term.*
 - C. *Secured investment based on assets with intent to resource with bank builds.*

If the short term analysis provides a positive view of the company's near term future and GM evaluations show an interest in the supplier as a long term partner, KLPH can do a longer term viability and operational analysis that would provide GM with additional insight into supplier capabilities and potential to seamlessly obtain and launch future programs.

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Long Term Analysis

1. *Five Year Plan – Develop a comprehensive FYP using GM and other customer programs to determine viability of the company with new programs. This would include a cash analysis incorporating CAPEX requirements and other non-variable cost increases required to meet program requirements.*
2. *Fixed Cost – Develop a fixed cost forecast based on current and estimated future conditions. An operational capacity analysis will be conducted to ensure efficient use of capacity.*
3. *Cost Savings – Plans would be developed to reduce overall business cost including purchased materials and components by localizing or resourcing to low cost countries.*
4. *CAPEX – Plans and purchase decisions will be reviewed to ensure capable and adequate equipment, tooling, and machinery are provided to meet future program needs.*
5. *Financial Restructuring – Where necessary to meet future requirements, develop partners to restructure debt, recapitalize with new investors, or arrange a sale to a new investor.*
6. *Technology Review – Review technology to ensure that the company provides a technological advantage to GM.*
7. *Margins - Provide a margin analysis by part, plant, and customer to identify key cost drivers and critical parts that provide profitability.*

Operational Assistance Capability

KLPH can, where necessary, provide operations personnel to oversee or operate supplier plants. This capability will ensure that GM's parts flow will not be interrupted for lack of adequate direction, personnel or skill sets. We are able to assist GM purchasing and operations in overseeing of:

1. *Bank Builds*
2. *Cash disbursements and receipts*
3. *Replacement of critical supplier personnel and addition of needed skill sets*
4. *Resourcing of tools and inventory*

Conclusion

KLPH stands ready to assist GM to successfully identify and aide suppliers during periods of high financial stress. Our team combines more than 200 years' experience in the automotive industry and has been instrumental in restructuring, preparing for sale, or closing suppliers without interrupting OEM parts production.