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Metaldyne Performance Group Inc.
Form 425
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AAM WORLD HEADQUARTERS
American Axle & Manufacturing, Inc.
at the 2016 Bank of America Merrill Lynch
Leveraged Finance Conference

Wednesday, November 30, 2016,

10:10 a.m. ET

WEBCAST PRESENTATION

TRANSCRIPT OF AUDIO RECORDED WEBCAST PRESENTATION

DOUGLAS KARSON, Research Analyst, Bank of America Merrill

Lynch

CHRIS MAY, Vice President & CFO, AAM

22

23

24 Transcribed By:
TERRI NESTORE
25 CSR No. 5614, RPR, CRR

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1 WEBCAST PRESENTATION

2 MR. KARSON: As for our fourth presentation

3 today, we have American Axle & Manufacturing with us.

4 I've been following the company for close to
5 20 years, and it's really the premiere manufacturer. It's

6 where kind of I learned about what Six Sigma means, and

7 quality production. It's obviously a big transaction

8 that, you know, they have embarked in and I think it's

9 going to be an interesting conversation. Please feel free

10 to have a nice dialogue. They've been great partners with

11 our firm, participating in this conference for many years,

12 which we're very grateful for.

13 So with us for the firm is Chris May, the vice

14 president and CFO. A real numbers guy, but very

15 approachable. If you ever have any questions, I'm certain

16 that he would be able to help you; and then Shannon Curry,

17 the treasurer, also a great partner with our firm with
18 investors on the fixed income side. So without further
19 ado, I'll turn it over to American Axle.

20 MR. MAY: Okay, thank you, Doug. We are
21 certainly very excited to be here at the Bank of America
22 Leveraged Finance Conference. We presented here a year
23 ago, and I would tell you my first response today would
24 be, what a difference a year makes. So I think you'll see
25 a lot of transformation that I talk about here today, in

3

1 terms of our upcoming acquisition of MPG, as well as our
2 performance, quite frankly, for 2016.

3 As Doug mentioned, with me today is Shannon
4 Curry, our treasurer, and my agenda today I'll talk about
5 the 2016 performance for the company as our base company
6 and again, the transaction of the acquisition of MPG.

7 But before I begin, a couple housekeeping items.
8 Matters discussed today may contain forward-looking
9 statements that are subject to risks and uncertainties
10 which cannot be predicted or quantified and which may

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11 cause future activities and results of operations to
12 differ materially from those discussed. In addition, due
13 to our upcoming transition, the discussion is not intended
14 and does not constitute an offer to sell or the
15 solicitation of an offer to subscribe for or by securities
16 of AAM or MPG. The proposed acquisition of MPG will be
17 addressed in a joint proxy statement and prospectus that
18 will be filed with the SEC. Investors should read this
19 information in its entirety when it becomes available.

20 So general counsel's happy.

21 With that, I'm going to transition into 2016 for
22 our financial outlook. Earlier in the month of November
23 we released our third quarter results, and for those of
24 you that follow our company, certainly they're online,
25 you'll find those are very strong results. At the same

4

1 time, we gave an updated outlook for our full year of
2 2016.

3 So right now we're currently targeting sales of
4 3.95 billion, which is up from 2015, and we'll talk about

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5 some of those trends, as well as our performance trends in
6 some upcoming slides. Also we updated our adjusted EBITDA
7 margin to 15-and-a-quarter to 15-and-a-half percent for
8 2016, and then our free cash flow metric for 2016 at
9 approximately 160 million. And both our margin and our
10 cash flow metric we upped to the high end of our guidance
11 range when we increased this at the beginning of the
12 month. So we are on track in 2016 for record sales and
13 record profits for the company. This is going to be a
14 very good year for AAM.

15 So with that, I'd like to just kind of put a
16 perspective, as it relates to our revenue, our EBITDA, and
17 our cash flow performance over the past couple of years,
18 and where we are today. You have seen our company have a
19 very steady growth from 2013 through 2016, as it relates
20 to revenue. Yes, we've enjoyed very good end markets in
21 our primary markets of North America, but we've also been
22 growing significantly in our China market as well and
23 we've had a very, very strong backlog cadence through this
24 period over the last five years, over 100 new program
25 launches that we've experienced. So an uplift, if you

1 look at the details, an uplift in the market, but a
2 significant uplift in our backlog launch. And also,
3 another key detail to keep in mind, there's been a
4 fundamental shift in consumer preferences over the last
5 couple of years to a shift to crossover vehicles, SUVs and
6 light trucks, that are now commanding almost 60 percent of
7 the SAAR sold today and that plays right -- right into the
8 sweet spot of American Axle & Manufacturing, and we're
9 benefiting from that.

10 So when you have performance like that, in terms
11 of a revenue side, it also drives a strong operating
12 performance, but our focus is our key elements of the
13 company, the key foundation of the company, our focus on
14 quality, operational excellence and technology leadership
15 continues also to drive these margin performance. Strong
16 sales, strong growth, our core values, as a positive
17 result and superior margins, and you can see that
18 displayed on the screen in front of the stage. We've
19 experienced growth in both an absolute dollar basis for

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20 EBITDA, but even maybe more importantly we've experienced
21 growth on an EBITDA margin basis, and you can see our
22 current year guidance of 15-and-a-quarter to 15-and-a-half
23 percent. So very, very strong result for the company.

24 Our operations are delivering results.

25 So those results, from a P&L metric, translate

6

1 into very strong cash flow metrics for the company.

2 So over the last year, since 2013, we have
3 delivered almost a half a billion dollars of positive free
4 cash flow. That's in addition to growing the business
5 organically. That's in addition to now delevering the
6 company. You see now our trend from '13 through '16 down
7 to 1.6 times leverage as a company. And keep in mind that
8 discipline that we focused on, that delevering the
9 company, when we talk about the MPG acquisition in some
10 upcoming slides. But this delevering, this cash flow
11 generation, this margin performance has allowed us or
12 positioned us now to focus on M&A for the company.

13 So that covers our 2016 performance.

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14 So let's move now to talk about some of the core
15 values of AAM. So we talk -- we'll talk about, in an
16 upcoming slide, some of our backlog, but fueling that
17 successful backlog has been AAM's technology leadership.
18 And what do I mean by that? We have launched new
19 products, we've enhanced our processes, we have focused on
20 some of the core mega trends of the industry, as it
21 relates to green, safety and performance, connectivity and
22 electrification. We've had some very successful product
23 launches. Think about our EcoTrac product that launched
24 in 2013. That will generate -- that will generate almost
25 \$600 million of revenue for the company by 2018 when all

7

1 its backlogged is launched and will grow beyond that when
2 we update our backlog in the future. That's a highly
3 product and demand key technology win for us for all wheel
4 drive vehicles and significant fuel efficiency savings,
5 but it doesn't end there.

6 We have gaining traction in our EAM which
7 launches in our backlog in 2018 and that's our electrified

8 axle, our new QUANTUM product that will be entering the
9 marketplace, which is lightweighting and advanced
10 development on our core legacy axle products which provide
11 fuel efficiency and lightweighting technologies, and then
12 of course across our entire product suite, an intense
13 focus on lightweighting and efficiencies that are being
14 demanded today by the OEMs and ultimately their customers
15 that are demanding of them.

16 But our products are well aligned with the trends
17 in the industry. So when you have technology leadership
18 like that and you're able to deliver high quality products
19 and program management, that translates into ultimately a
20 very strong and healthy new business backlog.

21 So this is the backlog we updated back in January
22 of this year, it relates to 2016 through 2018, of
23 \$725 million and you can see by proportionate to our
24 company size, very, very healthy. But it's also focused
25 on some of the other growth elements of our revenue, so

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1 two-thirds of our backlog today is relates to passenger
2 car and crossover vehicle segments, which continues to
3 further diversify our product portfolio.

4 And also it's focused on a global basis. You can
5 see, well represented on the backlog by global market, you
6 can see a portion for Asia, a portion for North America
7 and also a portion for Europe. So that allows us to
8 continue to diversify our customer base on a global basis.

9 One other element that is often talked about when
10 it relates to our company, it's our exposure on the
11 full-size truck to General Motors and as most of you, if
12 you follow our company, you will know that we have been
13 selected to be on the next generation of that program,
14 albeit at 65 percent of the content that we enjoy today,
15 but the good news is when we made this announcement back
16 over a year ago, in July of 2015, we have since won and
17 been awarded new business that has substantially
18 eliminated that sales gap in the transition from this
19 current full-size generation to the next generation. We
20 have a little bit to go, about ten percent, and we're
21 highly confident we'll close that out. But in just a

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22 little over a year's time, we have essentially eliminated
23 this gap and moving on with this issue. So we are very
24 excited about that. The new business wins have come
25 across many of our different product portfolios and of

9

1 course are coming in at a little bit higher margin range
2 than we had originally anticipated.

3 So that's positive news result for the company.

4 So that is an update on the AAM business, as it
5 sits for 2016, as well as some of our core fundamentals.

6 So with that, I'm going to switch gears, with no
7 pun intended, into our acquisition of the Metaldyne
8 Performance Group or MPG. So let's start with kind of an
9 overview of this compelling strategic acquisition.

10 This transition or transaction will allow AAM to
11 realize a lot of long-term value, and what's driving that
12 value? Well, certainly, we're going to increase the scope
13 and scale and size and relevancy of American Axle as a
14 premiere Tier 1 supplier. We'll go from approximately a
15 \$4 billion company to a \$7 billion company -- and we'll

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16 show some of these details on some upcoming slides.

17 One of the key, key business elements that we
18 face today is our concentricity to General Motors and our
19 products and our end markets. This will have an immediate
20 stepdown function on our exposure to General Motors from
21 approximately two-thirds of our revenue today, to about
22 40 percent when we close and ultimately, by the 2020 time
23 frame, when all our backlogs are launched, to less than a
24 third. So this will continue to de-risk our revenue
25 stream as a company, so very exciting element for us.

10

1 It also allows us to increase into our served
2 markets, though on a percentagewise it will be similar,
3 but we'll gain critical scale in the country -- in the
4 area of Europe, as well as in Asia, which we'll be able to
5 leverage into further opportunities.

6 We also have very similar technology focus as a
7 company, when you put these two together. Again, very
8 focused on efficiency gains, lightweighting, mega trends

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9 of the industry, and we'll talk a little bit about that
10 dynamic in some upcoming slides.

11 And then lastly it creates a much stronger
12 profile for the company. We'll be generating in excess of
13 \$1.2 billion of EBITDA, in excess of \$400 million of cash
14 flow as a combined entity, and a powerful industrial logic
15 and synergistic opportunity as a company. So we announced
16 this at the beginning of the month and we'll talk a little
17 bit more about the details in the next couple slides.

18 So on this slide is a full summary, and the pack
19 is in the back of the room if you have interest in it, but
20 a full summary of all the transaction details.

21 I'll just point out a couple key facts.

22 Number one, we expect this to be accretive in the
23 first full year of ownership, both on an EPS and a cash
24 basis, and growing from there. We have committed
25 financing in place to complete this transaction. We

11

1 believe there's a strong synergy opportunity on these
2 combined entities from a hundred to \$120 million, and we

3 do expect this to close in the first half of 2017.

4 So those are the key points. Obviously there's a
5 lot of others. You can read them online, et cetera.

6 Let's talk about that significantly enhanced
7 scale and profitability that I mentioned just a minute
8 ago. What you see on the screen is a 2015 audited
9 performance results. If you take AAM just shy of
10 4 billion, MPG at around 3 billion, we're just shy of a
11 \$7 billion company, including some elimination sales. We
12 are a customer currently of MPG. From a profit
13 perspective, both companies perform at top tier levels for
14 EBITDA margin performance. We will continue to leverage
15 that benefit going forward. Same is with cash flow
16 generation of just shy of 200 million for American Axle in
17 2015, over a hundred million for MPG in 2015. So you can
18 see just shy of 300 million here. You add the synergies
19 on top of that. When we deliver those within 24 months
20 you'll see a 400 million plus pro forma free cash flow
21 generating entity. That's a very, very powerful
22 statement.

23 In addition, we'll gain additional exposure

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24 across over 90 percent of all light vehicles produced in
25 North America. So we'll continue to grow and de-risk that

12

1 revenue concentricity for American Axle.

2 So let's talk about, from the practical side,
3 from a product side. So on the screen behind me is sort
4 of an opaque look of a vehicle. In red is what AAM
5 provides today. So this is our front rear axles, our rear
6 drive modules, drive shafts, et cetera, and you can see
7 where that plays on the drivetrain of the vehicle.

8 When we add in the componentry that MPG plays in
9 or can support in their serve market, you can see a
10 significantly enhanced but very complementary to AAM's
11 core product. We'll be able to increase now our served
12 market and revenue opportunities as we go forward as a
13 combined entity -- and none of those revenue
14 opportunities, by the way, are included in any of our
15 synergy numbers or projections. So we believe very
16 complementary when you look at their products, in terms of
17 diff cases and carriers and brackets and connecting rods

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18 et cetera. So good complement, from a revenue
19 perspective, as it relates to the combined entities.

20 But let's look at that at a little bit more,
21 let's kind of slice and dice that, in terms of how we are
22 exposed today, AAM, to where we will on a pro forma basis
23 from our products.

24 So today, about 50 percent of AAM's revenue is on
25 General Motors' full-size truck platform. If you add in

13

1 all the rest of our full-size truck and light truck
2 exposure, it's almost 85 to 90 percent. When we begin the
3 entities together, you can see the GM full-size truck is
4 around 25 percent, the balance of our driveline about
5 another 25 percent. So combined, it's about half of the
6 business that we gain. Now, critical exposure. Critical
7 exposure into engines and transmissions, castings and
8 additional forged product content. In addition, we'll
9 gain some enhanced exposure into the commercial and
10 industry end markets. So today, that represents less than

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11 three percent of AAM sales. As a combined entity, that
12 will be approximately ten percent of that. So -- and keep
13 in mind, those are industries right now that are
14 depressed, which you would expect to have some growth on a
15 go-forward basis.

16 And of course the key element that I mentioned
17 earlier was a diversification, as it relates to our key
18 customers. So the pie chart on the far left is our
19 concentricity by customer for AAM as a standalone, and you
20 can see about two-thirds is for General Motors, Ford about
21 1 percent, FCA at 20, and everybody else.

22 You can see then on a 2015, in the middle pie
23 chart, is our combined entities on a pro forma basis,
24 where GM is 41 percent, Ford is 8 percent, FCA is 15. We
25 also now gain additional exposure into the other top 15

14

1 global OEMs, and then everybody else.

2 By the time we launch our backlog by 2020, you
3 can see GM is around only a third, Ford continues to
4 expand and grow with our combined entity company. Our top

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5 15 other global OEMs continues to expand, which we find
6 very interesting and very exciting for our company. We'll
7 gain exposure now into customers we don't have a
8 relationship with, such as Hyundai and BMW, and also be
9 able to continue to grow, in a very positive and
10 meaningful way, our relationships with Ford and others.

11 So very, very attractive from a customer
12 diversification standpoint, and of course one of the key
13 fundamental investment thesis that we had with the
14 combined entities.

15 So that's the revenue side.

16 Let's transition now and talk a little bit about
17 the anticipated synergies of the combined entities.

18 I referred to the number in total previously at a
19 hundred to \$120 million, and you can see all the details
20 on the screen or your handout of what makes that up; a
21 combined of overhead and optimizing, you know, corporate
22 structure, redundant public company costs, I would call
23 those on the more traditional side, but also from the
24 purchasing side as well. We believe we can leverage our
25 spend on both the direct and indirect material

1 opportunities of the combined entities. Going from a 4 to
2 a \$7 billion company gives us some purchasing power, as
3 well as some ability to commonize across all our company
4 in total, and then some other cost savings associated with
5 some plant loading optimizations across either the forged
6 business units or the machining units, as well as some
7 other manufacturing initiatives.

8 So we believe a very achievable, very realistic
9 goal, from a synergy perspective.

10 So what does that mean, and when is this going to
11 happen? We anticipate by the end of the first year we're
12 at a 70 percent of these synergies at a run rate basis are
13 in place, and at the second year we're fully done at a
14 hundred percent.

15 In terms of cost to implement, we would expect to
16 incur about one year's worth of synergies, in terms of
17 cash cost, to implement these and we would anticipate that
18 in a very similar type time frame, probably around
19 70 percent in the first year and a little bit will trail
20 into the second year. But again, that would be a one-time

21 cost, and of course the synergies would go on into
22 perpetuity.

23 So one of the other things we were asked about
24 was, okay, can you give us and explain to us maybe some
25 forward-looking information, as it pertains to your

16

1 thought on the market, your thought on your ability to
2 perform from a margin basis and your cash flow and
3 downside scenarios, and I'm going to share all this
4 information here with you on the next couple of slides.

5 So first let's start with our view on the macro
6 for U.S. SAAR and North American production, and what you
7 can see on the chart with the red bar with the AAM logo is
8 our view of U.S. SAAR for 2017, '18, and '19, essentially
9 flat at 17.250. You can compare that to the current
10 I.H.S. benchmarks that are out there, that are slightly
11 higher at 17-and-a-half and 17.4 by the time you get to
12 2019, and you can compare that to the production, North
13 American production by either I.H.S. or Autofacts which

14 show growth -- which show growth -- over the next three
15 years, which indicates that North America continues to
16 export more vehicles, right? As other OEMs are
17 concentrating their assembly locations here in North
18 America, which becomes even more relevant to us. As we
19 now have content on 90 percent of the production in the
20 U.S., we will experience some of that benefit as well.
21 But again, keep in mind we're also focused on 60 percent
22 plus of the trending of the light truck and crossover
23 vehicle and SUV of the market will benefit from that, and
24 we also assume a moderate recovery in the commercial
25 vehicle and industrial end markets, which are at very

17

1 depressed levels today, so we should get some uplift
2 associated with that.

3 So let's talk a little bit more specific to the
4 combined entities financial performance from 2017
5 through 2019.

6 So from a sales perspective, we are targeting a
7 growth range for this period from 3 to 5 percent, and that

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8 includes the impact of launching over a billion dollars of
9 new and incremental business backlog. I shared with you
10 earlier what AAM's portion was for '16 through '18.
11 Obviously we'll update that again in January, but MPG also
12 has a significant new business backlog. So combined, it's
13 in excess of a billion, so we'll experience growth with
14 that, as well as our market assumptions which I just
15 shared with you.

16 From an adjusted EBITDA margin, we're targeting a
17 range of 17 to 18 percent, and of course that's once the
18 synergies are at full run rate by 2018. So very exciting
19 continued increase in our EBITDA margin performance with
20 the combined entities, plus the successful implementation
21 of our synergies.

22 Again, margin performance translates into a
23 strong free cash flow, and we're targeting a range through
24 2019 of 5 to 7 percent of sales of free cash flow, and
25 when I mean free cash flow, we define that as cash flow

18

1 from operations, less Cap Ex. So it's paid for Cap Ex,

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2 it's paid for interest, it's paid for taxes, it's paid for
3 everything. This is adjusted free cash flow left over to
4 use in other capital priorities.

5 And then lastly, Cap Ex. Targeting around 8
6 percent of sales in 2017 and this will transition down to
7 be less than 6 percent of sales by the 2019 time frame.
8 With a billion dollars, plus a new business backlog, you
9 need to make some investments but with a margin profile of
10 17 to 18 percent, you can of course afford to make the
11 appropriate investments to generate those returns.

12 So that's our financial targets.
13 So the other element that we get, in terms of
14 financial perspective, is looking at the downside
15 scenarios. We get asked this quite a bit. So we've put
16 together, shared with you based on our targeted EBITDA
17 performance, targeted with our revenue growth and synergy
18 realization, we'll have a significant EBITDA performance
19 well above our cash requirements that come after the EBITA
20 line. So think of Cap Ex, think of interest, think of tax
21 payments. Those would be in the blue. So we have
22 significant cushion there from our EBITDA performance over
23 those cash calls on the company. Couple that with our

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24 highly variable cost structure that AAM has, as well as
25 MPG has, we believe we have the company positioned to be

19

1 in a cash break even if we experience a 25 to a 30 percent
2 downturn scenario which, as you know, is a pretty dramatic
3 downturn. That would be a very personal high
4 peak-to-trough scenario. But a lot of flexibility from
5 our cost structure, a lot of flexibility that when you
6 have performance margins like this they give you that are
7 related to your cash.

8 So we think we're covered there pretty good.
9 The other question we get asked is, well, explain
10 how you're thinking about your leveraged profile for the
11 next couple years, and this is it on the screen.

12 At close, we anticipate around three-and-a-half
13 times levered and by 2019 we'll be two times levered, and
14 you can see the steady cadence of about a half a turn down
15 each year in '17, '18, and '19, based on the cash flow
16 generation of the company. We will of course get a little
17 bit of EBITDA growth as well on the company, but

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18 predominantly on the cash flow side. We'll maintain a
19 very healthy liquidity position for the company, in excess
20 of a billion dollars, and we have minimal debt maturity
21 calls until 2019, and then in 2020 there's none at this
22 point either. So a very healthy profile as it relates to
23 paydown, as well as it relates to liquidity, and then a
24 debt maturity profile.

25 I would remind you back when I showed you earlier

20

1 on about core American Axle, our discipline when we set
2 our targeted leverage reduction goals and that we were
3 lasered focused on achieving it and we were able to do
4 that, we'll do that again.

5 So what does that mean from an enhanced credit
6 profile? Of course increased size and scale gives us a
7 lot of benefits, which we've talked about. Our customer
8 and product diversification also gives us an enhanced
9 credit profile, allows us to be more resilient,
10 geographically, product based, et cetera. Serve market

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11 opportunities will increase for us, as well as content per
12 vehicle expansion. Strong cash flows we just talked
13 about, strong synergies we also talked about, and our debt
14 maturity profile we also talked about.

15 So we believe the combination of all these points
16 creates a very strong, enhanced credit profile for the
17 company.

18 So on this last slide you can see a summary of
19 all the industrial logic associated with this transaction.
20 We talked about many of these. But there are some that we
21 didn't talk a lot about, such as working capital
22 improvements, which we believe will continue to enhance
23 the value of this business. Think of inventory
24 reductions, payable terms, et cetera. A balanced tax
25 strategy on the combined entities. We have attributes,

21

1 when combined, will be beneficial to the company in total.
2 And of course our ability to leverage Cap Ex either
3 avoidance or optimization as we deploy products and new

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4 programs in the future between the two combined entities.

5 But in conclusion, I'd like you to walk away with
6 four things: This is a very solid, powerful industrial
7 logic transaction. I think you'd find through whether it
8 be the product or the performance, that's very compelling.
9 We have a great synergy potential as a combined entity, a
10 hundred to 120 million. Strong margins and free cash flow
11 opportunities; and last, this will be a value driver for
12 all our key stakeholders on a go-forward basis.

13 So with that, that concludes the formal remarks
14 of my presentation, and we'd certainly open it up to any
15 Q and A.

16 MR. KARSON: Question here couple in front.

17 ATTENDEE QUESTION: On the down time -- downside
18 scenario of 25 to 30 percent, you said cash flow break
19 even.

20 MR. MAY: Yep.

21 ATTENDEE QUESTION: Did you come up with that
22 number before making any adjustments for Cap Ex and taxes,
23 or does that include, you know, having cut Cap Ex to sort
24 of minimal levels? Maybe you can talk a little about the
25 assumptions to get you to that 25 percent to 30 percent

1 number.

2 MR. MAY: Yeah, certainly. So obviously there's
3 a variable cost element to our business. You know, for
4 example, on American Axle's side, 70 percent of our cost
5 structure is material, which is a direct material buy,
6 which is highly variable. So you go through the first
7 layer. We do have some assumed reduction in Cap Ex
8 associated with maintenance capital, but it's not very
9 significant in the context of this, but you think about if
10 you're in a depressed scenario, your equipment isn't
11 running as hard, you can manage some of that maintenance
12 capital. It has no, none, no sacrifice for Cap Ex, in
13 terms of program support, et cetera. So just a small
14 portion related to maintenance capital.

15 You also then have a little bit of -- you would
16 go at a depressed scenario at 25 to 30 percent, you would
17 target some fixed cost reductions -- and we have some
18 there -- not a lot, but we have some. And of course if
19 you thought that would extend for a further part of time,

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20 we believe there's additional actions, on top of what we
21 have shared with you today, that we could do.

22 ATTENDEE QUESTION: The -- again getting back to
23 that downside scenario, you had the slide on projected
24 delevering through 2018, '20.

25 MR. MAY: '19.

23

1 ATTENDEE QUESTION: Or 2019. What does that
2 deleveraging look like in that downside scenario? And I'm
3 just wondering if you did some sensitivity analysis around
4 leverage ratios in a 25, 30 percent downturn.

5 MR. MAY: Yeah, I would tell you, first of all,
6 our focus was, when you're in a downside scenario, is
7 cash, right? So even if you get to cash break even or
8 better, you can still continue to de-lever or pay down
9 debt and address your debt service needs.

10 It would depend on when. You can see how quick
11 that was paying down at half a turn a year from '17, '18,
12 to '19. So to the extent that it happened in later time
13 periods, you would be able to accommodate pretty

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14 significant downturn and still not lever up too high.
15 You're at some level stuck with math at that point, but
16 we'll be cash break even or better in those downturn
17 scenarios. I don't know if that exactly addresses your
18 question -- you're looking for a ratio -- but of course
19 your EBITDA would come down, your leverage would go up,
20 but if it happened in the outer years, it would be a very
21 manageable number.

22 ATTENDEE QUESTION: I have a quick question.
23 I'll jump in on some of your new kind of business wins.

24 You did a good job filling the gap with the K2XX,
25 picking up xTV platform. What are some of the kind of

24

1 opportunities that you see in like new product
2 development, whether it's lightweighting or redesign that
3 the industry could benefit from, given the like leaders in
4 axle production?

5 MR. MAY: Yeah, certainly. We have been
6 successful in replenishing that gap. I believe you
7 mentioned, Doug, over 90 percent, and we saw the wins in

8 that 90 percent fill -- really hit almost our entire
9 product suite of products, that we had to offer, from rear
10 axles to drive modules to our EcoTrac system to drive
11 shafts to forgings. But some of the trends that we see,
12 that allowed us to be successful, if you go back to that
13 technology leadership that I mentioned, was our EcoTrac
14 system on the all wheel drive platforms, which have
15 significant fuel efficiency savings versus a traditional
16 all wheel drive system, and essentially eliminates any
17 penalty loss versus a front wheel drive system. So we see
18 a lot of interest in that. A lot of interest in our
19 lightweighting initiative QUANTUM with our rear axle
20 platforms could also be applied to some of our other axle
21 type programs that has --

22 ATTENDEE QUESTION: QUANTUM?

23 MR. MAY: Yeah, QUANTUM has approximately a
24 35 percent less weight than a comparable axle today, and
25 can get a percent-and-a-half fuel efficiency savings. So

25

1 we are in the final stages of that and obviously getting

2 those out into customers to view and look.

3 We see opportunities there.

4 Lightweighting, as it relates to different types
5 of materials, are always of interest of the OEMs as well,
6 but there's, you know, value and efficiencies either in
7 lightweighting, but also in just true efficiency through
8 our products. So -- and we're seeing a lot of that.

9 And then of course the last one is our EAM
10 product, which we do launch in 2018 and our backlog, which
11 is our electric axle, we see interest for that as well.

12 ATTENDEE QUESTION: That's all. Thank you.

13 MR. MAY: Mm-hmm.

14 ATTENDEE QUESTION: Hi. Following up on the
15 question some other gentlemen asked, and they were asking
16 about the downside, and a lot of investors have sort of
17 the question of why now, at this point in the cycle?

18 So did you initiate the process or is this
19 something that came to you? Just thinking you guys have
20 worked so hard to get leverage down, and to take it back
21 up a couple turns -- we can all debate what's going to
22 happen with SAAR going forward. So sort of why now?

23 And the second question is the Metaldyne margins

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24 have always been -- at least to me, you know, on the
25 higher side than I would have expected for what they do.

26

1 Through your due diligence process, maybe you can
2 just give us some comfort about how those margins kind of
3 can hold out in the future years. Thanks.

4 MR. MAY: Yeah, certainly. Well, first of all,
5 let's start with the margin, you know, we just gave you
6 guidance here and also a couple weeks ago. We project the
7 combined entity will be 17 to 18 percent EBITDA margin, so
8 we expect those to continue.

9 As it relates to the why now question, if you
10 think about the fundamental issues of the business, right?
11 Our concentration with one large customer, our
12 concentration with one large, in particular, platform,
13 right? The opportunity has presented itself for us to
14 consummate this transaction. We felt this achieved a lot
15 of those goals, plus very complementary to our business
16 today, from a synergy perspective, from a culture
17 perspective and again, take our view on the industry. We

18 believe we're going to be in a plateau environment for the
19 next couple of years, which will allow us to pay down our
20 debt very quickly. That is very powerful
21 EBITDA-generating machine, a very powerful free cash flow
22 generating machine, and you can see how quickly we
23 de-lever. And we felt that obviously we had to lever up
24 the balance sheet a little bit to accommodate this
25 transaction but the benefits, we believe, far outweigh

27

1 anything else.

2 ATTENDEE QUESTION: Just to follow up on the
3 Metaldyne margins. Just what's unique? Because they're
4 awfully high versus a lot of things we see in the
5 industry. Is it just, you know, their positioning and
6 just not that much manufacturing capacity out there for
7 what they do so they can get those type of numbers or is
8 it embedded in some of the contracts they've got?

9 I'm just kind of curious what you've seen, what
10 kind of drives those type of margins.

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11 MR. MAY: They have good technologies, good
12 position in the marketplace, good cost structure, and
13 they've been delivering those results for a while now,
14 so...

15 MR. KARSON: Are there any remaining questions?

16 All right. Well, thank you very much.

17 Excellent presentation.

18 MR. MAY: Thank you.

19 MR. KARSON: And enjoy the rest of the day.

20 Thank you.

21 MR. MAY: All right. Thank you.

22 (End of presentation.)

23

24

25