

Light Vehicle Systems



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Phil Martens
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Good afternoon! It's great to be here today.

When Dave Cole and Rick Gerth invited all of us here today to participate in this session on innovation, I'm sure you had some questions in mind about the automotive industry.

However, now I'm willing to bet ... that the question that is first and foremost on your mind is: "What is THAT?"

As you may know the majority of ArvinMeritor's Light Vehicle Systems group and the future Arvin Innovation business is in Europe. So I thought I'd show you an innovative concept that was created there ... plus I get to have some fun!

This is an EasyGlider, the brainchild of a Swiss innovator named Stephan Soder. Seven years ago it existed only as a pencil sketch on paper ... and today it's being built and assembled in China ... and sold through a network of dealers in 50 countries around the world. It's lighter and easier to use than a Segway, and costs one-third less.

The EasyGlider started out as a way to put more power into its inventor's rollerblading excursions. But it turned out to be a fun, new mode of personal transport. It looks sleek. It turns heads. It has a throttle that looks like it means business ... kind of a Harley for the Segway crowd.

I wanted to show you this product today because it's an example of what we need to be doing as innovators in the automotive industry ... we need to think outside the box with products that create a passionate response in customers.

When we tried the EasyGlider in our parking lot of our Detroit headquarters ... people driving by on West Fort Street actually turned their vehicles around to find out about this cool product.

When you stop people in their tracks ... literally and figuratively ... that's how you know as an innovator you've hit the mark.

So why haven't we seen EasyGliders at the mall, on the patrolman's beat, or on the evening news?

Mainly because EasyGlider has only one dealer in the entire United States. Segway, on the other hand, has multiple dealers in 43 states.

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Here's a classic case of a cool, innovative product, priced to sell at about \$1,000 ... that has yet to reach its potential in one of the world's most lucrative markets because of an undeveloped distribution channel.

This is a slightly cautionary tale, as you've no doubt guessed. While we're here to discuss ways to Innovate, Collaborate and Thrive ... I'd like to start with one small caveat: that our ability to do so successfully depends upon the creation and nurturing of trusting relationships between people ... and between business organizations.

Stephan Soder has a great idea here. So he has the Innovation part down cold. He's found an economic fabrication solution in China. So he apparently has collaborative skill. His next big opportunity at least here in the United States, is a relationship with individuals who are willing to take a business risk and sell his very cool scooter here, where people like me can get their hands on one.

I really like the EasyGlider and it's a great example that gets us thinking out-of-the-box about innovation In fact, this month Toyota showed yet another type of motorized ride at a press conference in Tokyo.

With an eye on innovation we need to be mindful of the very real machinations of business ... that either enable or prevent fresh new ideas from finding their way into the hands of customers.

Easier said than done.

The car business is one of the most complex businesses we can name. We operate on a global scale and we cover all ends of the market, from the six-figure boutique marques to the \$2500 Tata, and everything in between.

Our products are technologically advanced and require billions of R&D investment every year. We're dependent upon fluctuating commodities like steel and oil, precious metals and plastics. We're regulated, monitored, rated and criticized by governmental agencies, watchdog groups, consumer advocates and environmentalists.

To stay on top of this business, a CEO has to be equal parts scientist, lawyer, diplomat, salesman and politician ... not to mention financier, engineer and gear head. And, lest I forget ... visionary.

Today's automotive leaders need to be the sparkplugs of innovation. We take control of our companies' destinies ... by leading positive change within our organizations. We're charged with building leadership teams that are global in outlook, technologically current and operationally oriented.

And in today's challenging economic climate, we're challenging our organizations, more and more, to innovate.

In fact, we're so sure that innovation is the secret sauce to succeeding in today's extremely competitive business climate ... that we've named our new company Arvin Innovation ... because innovation is inherent in all we, do from our name to our product breadth to our brand identity and vision for the future.

Remember the old saying that he who dies with the most toys ... wins? In our business today, it's "The company that develops the coolest innovations ... and gets them to market ... wins."

So how do we do that? How do we come up with an idea like this (*gesture to EasyGlider*) and get it into customers' hands? Especially at a time when money is tight?

Let's back up one step further.

How do we drive innovation? How do we change the culture of these staid, regimented companies where we work ... and get them to behave more like startups? How do we change the working environment – and change the way we do business – so that we can accelerate technical development, accelerate collaboration, and attract the talent that is now going to other industries?

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I believe we need a cultural revolution within our industry – and we need to fire the first shot in that revolution today. We need to ensure a steady supply of bright ideas within our companies. Only by changing the culture will we attract and retain the kind of talent and fresh thinking that we need.

The change that's coming about in personal transportation requires technical solutions that are entrepreneurial in nature. The companies that are emerging to provide those innovative solutions are different kinds of companies than we've seen in the past.

Tesla Electric, for example, and a handful of startups from Asia are providing stunning technical solutions for products that customers want. If we want our companies to compete, we'll need a new and innovative way of thinking in an exciting environment ... not only a technical environment, but a heavily computer-based environment. We'll need to build for vehicles from a fresh understanding, a fresh viewpoint ... not from an understanding that's 20 years old.

Let me stop right here and reassure you that I'm not advocating that we ditch the breadth and depth of talent we already have. We need steady, experienced hands on the tiller ... there's no doubt about that. But we do need fresh blood and fresh ideas. And we need to loosen up.

On the business side, some companies have turned to private equity for help in funding new ideas and new business directions. I've come to believe, though, that private equity may not be the savior some companies hope for.

However, as business enablers, I believe private equity has a valuable role to play. As long as private equity is in a minority position, it can help a company facilitate change ... invest in new products ... or fund important research. The money a private equity group brings to a business can help drive innovation ... in a situation where outside funding is needed. But to achieve success, the leadership team needs to lead.

The very best businesses in the Tier One world are succeeding on their own, through sound business management, and how they can aggressively change the way they manage their business on the fly as conditions in the market fluctuate. They have the leadership teams in place that make rapid change possible. They have the kind of CEOs that provide a template for change, and then empower the organization to make change happen.

The very best of these companies, with the highest level of return, typically have high levels of technology that are scalable to be applied to any product worldwide, and meet the global demand, but they have a low-cost base from which they operate. They also have a history of rapidly changing the way they do business to match the environment.

Some successful companies that operate this way are Borg-Warner and Johnson Controls. They have the right solutions at the right time ... and are efficiently operated and are globally represented.

In Europe, I'd single out Mahle, a German company that excels in the staid world of casting and operates globally. They successfully partner with others on the technology side. In Asia, another standout is S&T Daewoo, which is just coming out of bankruptcy but is run by a very experienced leadership team. It has technology based solutions that are applicable worldwide.

These are just a few examples of Tier One companies that are thriving today through innovation and collaboration. They're all global players – they haven't isolated themselves to one market. They are realists. They've all made tough decisions and come out better for it.

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ArvinMeritor recently made a tough decision when we decided to split the business in two because of the different directions our two businesses were going in. We believe we can accelerate the growth of both by formally splitting the company.

Arvin Innovation will become an emerging market, growth-oriented company doing business on a global scale. While ArvinMeritor is in a different business, in a different environment, with different cycles, different products and a different regulatory environment.

We will unlock shareholder value by creating two distinct and separate business entities. ArvinMeritor will grow and prosper in the commercial vehicle sector, while Arvin Innovation will expand its business in automotive. We are global in reach, nimble in operation, and focused on new ideas.

Creating Arvin Innovation and positioning it as a stand-alone company has caused me to define my own thoughts about the relationship between innovation and leadership. If any of us here at this seminar are to thrive in the years ahead, we need to think hard about the role of innovation and the culture our leadership teams foster to help it along.

I think we need to be mindful of three things.

First, we need to take control of our own destinies and take responsibility for our actions.

Second, we need to have the right people in place to implement the necessary changes worldwide. Individuals in leadership positions have tremendous influence over the environment within our companies. If some members of the team can't thrive in a highly entrepreneurial setting, then we need to make changes.

Our leadership teams need to have a bias for action, a willingness to take on stretch assignments, have a global outlook, and possess technical savvy.

This is not an arena for people who are general business managers. They have to be technically astute, operationally oriented people who can act nimbly and move the business forward globally in an efficient manner. Ideally, a management team for a business that wants to innovate and thrive would have a balance of operational competence and forward-thinking vision.

Third, CEOs also must have a strategic view of how they're going to lead their businesses ... and to stick to it. A CEO can't be all things to all people. We must recognize that if our capital resources are managed inefficiently, we won't have the money to strategically reposition our business when we need to.

Although our industry is going through some pain right now, and our industry has a huge impact on both our society and our economy, we need to remember that other industries have gone through similar difficulties and have survived. We are not alone.

Consider the textile industry, the garment industry, the steel industry, and the airlines. They found ways to surmount their difficulties. We need to take a look at their template and apply it to ourselves.

We need to keep our eyes on the horizon. Let's look beyond the next product program. Let's look 50 to 100 years up the road ... when our companies may not be building cars, but entirely new transportation systems.

Certainly the mix of gasoline-based engines is going to decrease dramatically. Consider the fuel cells or the hybrid programs that emerged a few years ago. They're now taking a back seat, while attention is moving into products like the Volt, an electric car with a gas generator. It now looks as though the future is in electric vehicles and all sorts of alternative powertrain combinations we can't even imagine yet.

Something like this EasyGlider may not be that avante garde. In fact, it's a battery operated vehicle as well.

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By the middle of the next decade, I think 25 to 35 percent of the vehicles on the road will have hybrid powertrains.

So let's get on with it. The technology is going to take off at a rate that we couldn't anticipate even three or four years ago. We can't rely on backward-looking product development processes – we need to think ahead and think outside the box.

These new hybrid vehicles, with lightweight materials and advanced powertrains, may be more like aircraft than anything we've designed before, and may be built by entirely different processes, more like the aircraft industry.

Maybe building these new cars will cause us to completely rethink not only our assembly, but also our product design processes, in order to get the product to market fast enough to meet consumer demand.

If we don't rise to the challenge, someone else will. From the OEM perspective, it's a tremendous challenge. But from the Tier One perspective, it's pure opportunity.

The ability to adapt quickly is key to our future success. Equally important is our ability to create valued, long-lasting partnerships and collaborations with others. We can never underestimate the value of relationships, where each side is valued and respected.

I've had the opportunity of working on both sides of the OEM/Tier One fence. Both have to respect the demands of the consumer. The voice of the customer has spoken. It's just a matter of how fast can we move to close the gap between what the customer wants and what we build. And it's going to have to be closed at a rate we've never seen before ... or somebody else will emerge and close it.

But great ideas are not enough. You must have a relentless focus on operational effectiveness and market growth ... AND on delivering new products.

In my nearly 25-year career working in the industry, I've noticed the best automotive companies have a truly global business model and footprint that allows them to grow market share on any continent in the world. These companies also have a diverse product and customer portfolio, and a fully competitive cost structure.

Frankly, Arvin Innovation is poised to succeed on all counts.

Today, we are a cohesive, globally-integrated organization with two business groups – Chassis Systems which includes Wheels, and Body Systems. This operating matrix effectively leverages the expertise of our global workforce in engineering, manufacturing, quality, purchasing and information systems. By maximizing these synergies, we are moving rapidly ahead to deliver "gotta have" product technologies. And as a globally integrated organization, Arvin Innovation has a unique competitive advantage to deliver new technologies in emerging markets like Brazil, Russia, India and China.

There's a competent solution to today's need for personal transportation and our company plans to be in the forefront ... as one of the few U.S.-based companies that has successfully reinvented itself as a global player. We've done it by staying one step ahead of our competitors with innovations our customers need and no other company can offer.

Quite simply, we want to be the supplier of choice to OEMs throughout the world. That's why we've increased our engineering investments to deliver products that meet increasing customer demand for improved fuel economy, safety and vehicle performance. I'm excited about our light weight composite coil and glass products, and our complete smart systems™ product lineup that offers electronics systems solutions. These disruptive products are industry game changers that will distinguish Arvin Innovation in the industry.

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For a gear head like me ... this is an incredibly exciting time for automotive innovators to make a lasting mark on the industry.

Thank you.