J.D. POWER AND ASSOCIATES®

Press Release

J.D. Power and Associates Reports:
Five-Year Outlook for Automotive Market in China Forecasts 55 Percent Growth, Numerous Challenges

J.D. Power and Associates Outlines Five-Year Forecast in *China Automotive 2015: The Cost of Opportunity*

BEIJING: 22 April 2010 — Sales of passenger vehicles in China (including passenger cars, SUVs and minivans) are expected to increase from 8.7 million units in 2009 to 13.55 million units in 2015—an increase of more than 55 percent, according to a special report titled *China Automotive 2015: The Cost of Opportunity*, released by J.D. Power and Associates today.

The report examines the future of China's automotive industry and the challenges that automakers face in one of the world's fastest-growing vehicle markets.

Larger automakers and long-established brands have recorded substantial profits in the past few years in China. This was especially true in 2009, when government stimulus and massive bank lending—the equivalent of one-third of China's gross domestic product—translated into soaring vehicle sales and record profits for many automakers. This kind of stimulus, however, cannot continue indefinitely.

"China's rapid growth makes the automotive market highly attractive and almost irresistible to any automaker," said John Humphrey, senior vice president of global automotive operations for J.D. Power and Associates. "However, for many brands, achieving their profit aspirations in China in the coming years will be far more challenging."

There are numerous market and structural obstacles that automakers must overcome in China. These include:

- Hyper-competition in the China market. By 2015, there will be more than 90 automotive brands competing in China's passenger-vehicle market, more than any other market in the world and more than twice the number of brands in the United States. In addition, by 2015, there will be more than 300 models produced in China, and hundreds more models that will be imported.
- The industry is ripe for consolidation. Despite this, rival provincial governments that are competing to defend their regional automotive industries (including suppliers) to drive local employment and tax revenues is resulting in a competitive landscape that will be little changed by 2015.
- The lack of consolidation, as well as proliferation of product, will have adverse impacts on prices and profit margins.
- Consumers outside the highly populated Tier 1 cities will become an important source of growth going forward. Targeting which of the many Tier 2, 3 and even 4 cities on which to focus expansion efforts will be critical for OEMs, and will increase the complexity of resource allocation, risks and costs. Finding high-quality dealers and dealership personnel will add to the challenges.
- While foreign automakers will still hold an advantage by 2015 in the areas of engineering, manufacturing and quality, the gap with domestic automakers will be closing. Chinese automakers will more aggressively assert themselves in their relationships with their foreign joint venture partners, especially in the areas of product strategy, distribution and marketing.

Among the 13.55 million passenger vehicles that are projected to be sold in China in 2015, approximately 57 percent will be sold in the lower-margin subcompact and compact car segments. Within these two segments alone, there will be more than 125 vehicle models for consumers to choose from. In comparison, only 22 percent of passenger vehicles forecasted to be sold in the United States in 2015 are expected to be subcompact and compact models, while 57 percent of passenger vehicle sales are expected to be higher-margin luxury car, SUV, pickup and minivan models.

Total factory production capacity for passenger vehicles in China is expected to reach 19.6 million units by 2015, although the rate of capacity utilization is projected to be only 66 percent.

"The low rate of capacity utilization projected for 2015 will likely cause another dilemma for automakers in China, as factories typically need to achieve at least 80 percent capacity utilization to cover the high amount of fixed costs," said Humphrey. "As a result, automakers will be forced to look for ways to alleviate the financial stress these loss-producing operations cause, including options of consolidating, increasing exports, and investing in more efficient flexible manufacturing technologies."

There are more than 13,000 vehicle dealerships currently operating in China. Approximately one-third of dealers report that they are operating at either a financial breakeven point or at a loss. Most of these dealers depend on profits from new-vehicle sales to remain in business. Because new-vehicle prices will continue to come under increased pressure, there will be greater attrition of marginally performing retail outlets.

"Dealers in China will need to find new sources of revenue and profit to remain viable in the future," said Humphrey. "The retail landscape in China is going to undergo dramatic change in the coming years."

About J.D. Power and Associates
Headquartered in Westlake Village, Calif., J.D. Power and Associates is a global marketing information services company operating in key business sectors including market research, forecasting, performance improvement, Web intelligence and customer satisfaction. The company's quality and satisfaction measurements are based on responses from millions of consumers annually. For more information on car reviews and ratings, car insurance, health insurance, cell phone ratings, and more, please visit JDPower.com. J.D. Power and Associates is a business unit of The McGraw-Hill Companies.

About The McGraw-Hill Companies:
Founded in 1888, The McGraw-Hill Companies (NYSE: MHP) is a global information and education company providing knowledge, insights and analysis in the financial, education and business information sectors through leading brands including Standard & Poor's, McGraw-Hill Education, Platts, and J.D. Power and Associates. The Corporation has more than 280 offices in 40 countries. Sales in 2009 were $5.95 billion. Additional information is available at http://www.mcgraw-hill.com/.

Media Relations Contacts:
Ms. Helen Rong; Director, Marketing Communications; J.D. Power Asia Pacific; Shanghai, 200040 China; +86 21 2208 0832; helen_rong@jdpa.com

John Tews; Director, Media Relations; J.D. Power and Associates; Troy, Michigan 48098 USA; 001 248 312 4119; john.tews@jdpa.com

# # #