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TRW - Q1 2009 TRW Auto Earnings Conference Call

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PRESENTATION

Operator

Good morning and welcome to the TRW conference call. All lines have been placed on listen-only mode and as a reminder, this conference call is being recorded. Presentation material for today's call is posted to the Company's website this morning at trw.com/results. Please download the material now if you have not already done so. After the speakers' remarks, there will be a question-and-answer period. Due to today's limitation on time, the Company requests that participants limit follow-up questions to one per caller. (Operator Instructions).

I would now like to introduce your host for today's conference call, Mark Oswald, Director of Investor Relations. Sir, you may begin.

Mark Oswald - *TRW Auto Holdings Corporation - IR*

Thank you, Mandy. I would like to welcome everyone to our first-quarter 2009 financial results conference call. Joining me this morning are John Plant, our President and Chief Executive Officer, and Joe Cantie, our Chief Financial Officer. Today's call will follow our usual format.

John will provide an overview of the current automotive environment, its impact on TRW, and what's being done to mitigate the challenges in front of us. John will also provide a brief summary of the financial results and discuss other related business matters. After John's comments, Joe will provide an expanded review of the financial information. At the conclusion of Joe's comments, we will open the call to your questions.

There are a few items I would like to cover before getting started. First, today's conference call will include forward-looking statements. These statements are based on the environment as we see it today and therefore involve risks and uncertainties. I would caution you that our actual results could differ materially from the forward-looking statements made on this call. Please refer to slide three of the presentation for our complete Safe Harbor statement.

The risk factors section of our 2008 form 10-K contains additional information about risks and uncertainties that could impact our business. You can access a copy of our 2008 10-K and other SEC filings by visiting the investor section on our website at trw.com, or through the SEC's website at SEC.gov. On a related matter, we expect to file our first-quarter 10-Q within the next day or so. Once filed, the 10-Q can also be accessed through either website.

In addition to the financial results presented on a GAAP basis, we will also discuss non-GAAP information that we believe is useful in evaluating the Company's operating performance. Reconciliations for these non-GAAP measures to the closest GAAP equivalent can be found on the conference call materials which are posted to the investors section on our website at trw.com.

And finally, a replay of the call can be accessed via dial-in or through a webcast on our website. Replay instructions were included in our release this morning. We have not given permission for any other recording of this call and do not approve or sanction any transcribing of the call. This concludes my comments.

I will now turn the call over to John Plant.

John Plant - *TRW Auto Holdings Corporation - President and CEO*

Thank you, Mark, and good morning, everyone. The first quarter of 2009 is certainly a quarter to put behind us. Vehicle production volumes across the world fell precipitously from an already extremely depressed quarter four of 2008. This last six months will be a scar upon all of our memories, especially for those people in the automotive industry.

For example, in quarter one, North America production fell 51% year-on-year and some 37% from the fourth quarter of 2008, which in itself was down 9% compared to the third quarter of 2008. The fallout surrounding the global financial markets continues to loom over the industry. Increasing unemployment, shattered consumer confidence, and tight credit are the major factors contributing to the very low levels of vehicle sales and production.

GDP in North America fell by 6.1% in the first quarter of 2009 and this is on top of a 6.3% reduction in the fourth quarter of 2008. A combined reduction in GDP in a six-month period which has not been seen since the 1950s. Vehicle manufacturers around the world have sought various forms of governmental support during this extraordinary period. It is clear that without support companies with stressed balance sheet or inadequate liquidity will not survive.

As you are aware, in North America, the US government has provided temporary low cost loans to General Motors and Chrysler starting in December of 2008 as those companies attempted to restructure their businesses. In late March, the administration and the automotive task force made it clear that the additional restructuring actions are necessary to ensure a longtime viability for both GM and Chrysler and are prerequisites to further government money.

As announced last week, Chrysler was unsuccessful at restructuring outside of bankruptcy and will now attempt to finalize a speedy restructuring plan and partnership agreement with Fiat. The shape of the future automotive industry in North America as well as Chrysler and GM's role within it is being determined right now. At TRW, we have focused on mitigating our risk to the possible outcomes for Chrysler and GM to the extent that it's possible.

In addition to direct aid to the manufacturers, the US government announced the Auto Supplier Support Program. This program will provide $5 billion of financing in government-backed protection of General Motors and Chrysler receivables for certain suppliers in the US. TRW is participating in this program with both Chrysler and GM. In addition, TRW is also participating in the Canadian Receivable Guarantee Program for Chrysler. Of course, TRW's diversification will serve us well if there is a sudden or further shift of sales and production within or away from the Detroit 3. We will continue to monitor the situation at Chrysler and GM and react accordingly, but at this point we feel we are well prepared for the possible outcomes.

Looking forward on the demand side, sales should get a boost thanks to recent efforts to increase the availability of credit, allowances for sales and excise tax deductions, and new marketing programs aimed at boosting confidence in certain vehicle brands. In addition to actions taken by the US government, countries around the world have also provided support to the automotive industry in the form of direct loans, scrappage schemes, tax reductions, or other plans aimed at stimulating car sales. Examples are scrappage schemes in Germany, France, Italy, Spain, and the UK, all of which have had demonstrable effect.

In certain European countries where legislation was enacted quickly, manufacturers are counseling previously scheduled down weeks in the second quarter as demand for small cars has increased. This is welcome news during this difficult period.

As you can see from TRW's results posted this morning, the intense challenges facing the global economy and the automotive industry had a significant impact on TRW's first-quarter performance. While we continue to take quick and decisive steps to reduce our costs, the magnitude of the impact relating to the sales reduction could only be partially offset.

During the first quarter, the environment continued to deteriorate. New vehicle sales continued to fall to unimaginable levels. Every manufacturer in every part of the world has been impacted by steep sales declines. As a result, inventory levels remain in an overstock position most notably in North America. Manufacturers are aggressively managing inventory levels with significant production cuts. For example just two weeks ago, General Motors announced a 190,000 vehicle reduction to their second-quarter production schedule. And of course Chrysler halted production of all of its North American operations following their bankruptcy filing last week.

The production forecast should stabilize once supplies are brought in line with demand. It appears that this convergence of supply and demand will occur later this year and may indeed have already occurred in Europe for certain vehicle segments. And finally despite government assistance, concerns remain heightened for the health of an already fragile supply base as certain suppliers struggle to maintain an adequate level of liquidity and working capital during this prolonged period of low production. In fact, further strength may be exposed as production increases.

During this period, we remain focused on preserving liquidity and further reducing the cost base by expanding initiatives already under way and looking for additional actions to help mitigate these events. The restructuring actions taken to date along with TRW's core competitive strengths, [which is] our leading portfolio of active and passive safety products, industry-leading diversification, and ample liquidity will enable us to prevail during these difficult times.

I am convinced that the first half of 2009 will mark the bottom for production of vehicles during this deep recession. The average age of passenger cars on the road in North America is 9.4 years, a new record, while the average pickup truck or sport utility vehicle is 7.5 years, older than at any time in the past decade. These data points support the fact that pent-up demand is building.

Before going into further detail on the intensified challenges and the program to mitigate those challenges, let me provide you with a brief financial overview of where we finished the quarter.

First-quarter sales of $2.4 billion were down 42% compared with the prior-year period reflecting the extraordinary decline in global vehicle production during the quarter. Excluding the special one-time items which Joe will discuss in more detail in just a few minutes, the Company reported a first-quarter net loss of $115 million or $1.14 per diluted share. Within this number, our operating loss was $71 million. This is the second consecutive quarterly loss for TRW.

The results primarily reflect a decline in core sales attributed to the steep decline in vehicle production levels and the negative effects of currency movements during the quarter. Against a backlog for the challenges facing the industry, the results demonstrate TRW's cost reduction efforts are taking hold and that we are improving the long-term competitiveness of the Company. This can be seen when looking at the change in operating income as a percentage of the change in sales.

For the quarter, this percentage was 15%, which is well below our normal level of loss contribution on a sales decline of 25%. This is due to the speed of action and the depth of cost cutting. In the first quarter as compared to the prior year, vehicle production was down significantly in North America and Western Europe, our two primary markets. In North America, vehicle production was down 51% with the Detroit 3 down 55%.

Sales and production in Europe held up slightly better than North America as a result of the government scrappage schemes. In Western Europe, production was down 41% for the quarter compared to the same period a year ago. Although 41% is significant, we are cautiously optimistic since some previously scheduled down weeks are being canceled and quarter-over-quarter production is trending upwards in Europe.

The scrappage schemes helped protect against additional production declines, however, the region is experiencing a value shift as well as the increasing cars produced and sold tend to be small, fuel-efficient vehicles.

In addition to our two major markets, production slowed or declined in several emerging markets such as South America down over 17%, India down 4%, China down 2%, and Russia down a staggering 60%. Clearly these are dismal production levels around the world. However, quarter-over-quarter improvements in the global production forecasts are starting to appear. Although it is most likely we will not see significant improvements prior to 2010.

In order to adjust the size of our fixed cost base to lower production levels and to mitigate the effects of the downturn in the short-term, TRW has proactively and aggressively focused on operational restructuring and cost containment initiatives and the cost reduction achieved in comparison to the relatively small size of restructuring dollars spent is very notable.

Let me summarize a few steps we have taken. Beginning with personnel reductions, we expanded headcount reduction programs in both North America and Europe. During the first quarter, we reduced our global workforce by an additional 4400 employees. When combined with the 10,000 employee reductions achieved last year mainly in the second half, total employment has been reduced by approximately 19% since the start of 2008.

In addition to employee separations, our sites in Europe continue to work short week programs in a significant manner. The use of the short time working is a very cost-effective way rather than laying off people. In addition, targeted employee reductions will continue through the next quarter.

With regards to facility closures, we previously announced plans to close the Warrenton casting plant in Georgia and our brake actuation center in Spain. Both of these were completed during the first quarter. In addition, we closed and consolidated one of our facilities in Mexico during the quarter and we recently announced plans to close Ettrick, the Wisconsin facility, in the third quarter, although we are now looking at trying to advance that.

In an environment where we continue to consolidate facilities and further reduce our workforce, we remain committed to our quality, Six Sigma, and business excellence programs to ensure structured processes and efficiency are part of our day-to-day operations. In fact in terms of quality, PPM across all products and customers reached a new level of 6.1 PPM and is world-class.

In addition to the extraordinary actions, we continue to focus on the basics including working capital management, tight controls on indirect spending, and stopping capital spending in its tracks. You would have seen from our results this morning that our first-quarter capital expenditure was limited to only $35 million which compares to $97 million last year and depreciation and amortization of $117 million. For the full year, we now expect capital expenditures to be approximately $300 million, which is well below normalized levels.

Clearly we have made a significant amount of progress with restructuring the business. Further restructuring actions are being planned in order to bring the Company to satisfactory profitability at much lower production levels. As a result, our guidance for full year 2009 cash restructuring is now approximately $90 million. In addition to spending a great deal of time focusing on restructuring and the cost structure of the business, we continue to run the business for future success. It is important that we remain focused on executing our strategy.

During the quarter, we had a high level of product launches. A few examples include multiple TRW products on the new Mercedes E-Class in Europe, the VW Polo in Europe, and the Hyundai Equus in Asia Pacific, or the Genesis as it is known in the United States.

In addition to the launches under way, despite the current difficult industry conditions, a significant amount of new business has been awarded to TRW. A few examples include the largest electronic stability control brake contract which has ever been won for TRW in Europe, which is followed by a significant caliper win at the same customer. We enjoyed numerous steering wins in all regions. On the occupant safety front, we continued to win airbag, seatbelts, and steering wheel contracts across the globe and our electronics business recently won an important electronics award integrating the stability control inertia measurement unit in the airbag control units with a Japanese customer.

The new business wins and recent launches continue to strengthen TRW's competitive position. We remain the industry leader and have the broadest portfolio of active and passive safety products, a core strength given the continued importance of vehicle safety to drivers everywhere. Our industry-leading diversification continues to be strengthened especially with regards to our customer mix and the platforms supported. Finally, our cost structure continues to be in good shape.

I mention these competitive strengths as a reminder of our solid foundation. In these extraordinary times, well diversified companies that produce high technology products with a competitive cost structure are best positioned to survive tough times and thrive of course in good times. TRW is an example of such a company.

Before I turn the call over to Joe, let me comment on our expectations for the second quarter and the remainder of 2009. Overall, the production forecast continued to be revised downwards; however, Q2 production and beyond is expected to be higher than the first quarter and this allows us to be optimistic the worst is behind us. In North America, we expect second-quarter production to be approximately 1.9 million units, a decline of 45% compared to last year but a 200,000 unit increase over first-quarter production.

Within this estimate, Detroit 3 production is projected to be one million units, a 52% reduction compared to last year. For the full year, we now expect North American production to be at 8.2 million units, a decline of 35% compared to 2008 and 1.1 million units lower than earlier expectations. During the second quarter, vehicle production in Western Europe is forecasted at 8 -- sorry, at 3 million units, down 28% compared to the same period a year ago but up over 500,000 units compared to the first-quarter output.

Total production in Europe is forecasted at 4.2 million units. For the full year, our total European production estimate is now 15.9 million units. Within this estimate, Western European production is approximately 11.2 million units, a decline of about 21% compared to last year. This forecast assumes Western European production will stabilize between 2.8 million and 3 million units each quarter for the remainder of the year.

Beyond North America and Western Europe, vehicle production levels in high-growth countries such as -- of the world such as Russia, China, India, and South America are also expected to decline compared to 2008 or significantly slow compared to prior double-digit growth rates. As we have done throughout this crisis, we plan to monitor the production plants of the vehicle manufacturers closely and make adjustments to our operations sooner rather than later.

The year-over-year decreases in vehicle production in all regions albeit with Q2 increasing versus Q1 of 2009 and with the uncertainty surrounding the global financial markets, they are all reflected in our revised 2009 forecast.

Based on the revised production estimates, we now expect full-year sales of approximately $10.1 billion to $10.5 billion, down from earlier expectations. Sales in the second quarter are expected to be approximately $2.5 billion or 44% lower than the prior year but up 4% compared to the first quarter. As far as restructuring, as I mentioned, we are now expecting full-year cash restructuring to be approximately $90 million.

At TRW, we are going to remain focused on improving working capital, protecting cash flow, and further reducing the cost base. We remain confident that we are executing the right strategy and building on our solid foundation. We look forward to a stable and sustainable level of vehicle production. And with that, I will now hand the call across to Joe to discuss our financial results in further detail.

Joe Cantie - *TRW Auto Holdings Corporation - EVP and CFO*

Thank you, John, and good morning, everyone. No doubt these are trying times for everyone involved in our industry. The challenges associated with unsustainably low production levels and the velocity of change and challenges at certain of our customers has caused us to proactively restructure and protect our businesses in these difficult times.

Our results for the first quarter reflect the broad challenges facing the industry, demonstrated by the 42% (technical difficulty) of sales. Despite the difficult first-quarter results, (technical difficulty) encouraged by recent signs of stabilization and even sequential growth in vehicle demand in certain areas. I am pleased with our results -- with the results of our restructuring and cost containment actions, which we can see building in our financial results.

We are hopeful that the stimulus programs implemented around the world will continue to improve demand and ultimately lead to a sustainable, improved vehicle production environment. In the meantime, TRW has a solid capital structure with good liquidity and no material near-term debt maturities which places us in a good position to weather this downturn.

I will expand on our liquidity and capital structure in a few minutes. First, let me review in more detail with you our results issued this morning. For the first quarter, we reported sales of $2.4 billion, a decrease of $1.8 billion or 42.3% when compared to the same period a year ago. The sales decline resulted primarily from the lower production volumes discussed earlier. In addition, currency translation also reduced sales by $444 million. The euro to dollar exchange rate averaged 1.3 this quarter, which was about 13% lower than the same period a year ago.

Our sales declined in all regions, with North America down 48%, Europe down 27%, and the rest of the world down 29%, excluding the effects of currency. Our sales declines in North America and Europe were less than the declines in the underlying vehicle production levels demonstrating content growth for TRW.

For the quarter, we had an operating loss of $125 million, which compares to income of $188 million in the prior year. Included in this quarter's operating loss were restructuring and fixed asset impairment charges totaling $24 million. The prior year included $8 million. The current quarter also included an intangible asset impairment of $30 million relating to trademarks. The impairment, which is a non-cash expense, was driven by further declines in forecasted revenues. Excluding these special items, operating income in the quarter was a loss of $71 million, which compares to income of $196 million in 2008.

There were a number of factors that contributed to this decline. By far the most significant driver was the reduction in sales. Net currency losses were also a negative in the quarter. Although the loss was significant, the operating results demonstrated that our cost reduction and restructuring programs are taking hold. Had we not implemented the downturn management actions discussed earlier, you would have seen an operating loss well in excess of $71 million -- of the $71 that we reported, assuming our typical 25% plus contribution margin.

Below operating income, net interest expense was $42 million, which is slightly lower compared to last year's expense of $49 million, given lower interest rates on our variable debt. In addition, a gain on retirement of debt was also recognized during the quarter. We repurchased a limited amount of our bonds with a retired face value of $47 million at approximately $0.30 to the dollar of face amount.

Cash required to repurchase the bonds was just under $14 million, which resulted in a gain during the quarter of $34 million. Subsequent to the first quarter, we also purchased a further $10 million face value of bonds.

Finally, with regards to taxes, a $5 million tax benefit was recognized during our first quarter which compares to $47 million of expense last year. At the bottom line, we posted a GAAP net loss of $1.30 per share compared with earnings of $0.92 per diluted share in the 2008 period. However, when you exclude the special items that I just discussed, we had a net loss of $1.14 per share compared with earnings of $1 per share in the prior year.

In terms of EBITDA, we had $43 million for the quarter excluding special items compared with $345 million in the prior year measured on the same basis. Provided that production levels move north from the levels experienced in the first quarter as we currently forecast, we expect that our first-quarter sales, operating losses, and EBITDA results were at their trough levels.

Moving on now to our liquidity and capital structure, for the quarter operating cash flow was a use of $254 million, which compares to a use of $115 million in 2008. Cash flow used after capital expenditures was $289 million compared to a use of $212 million last year. The cash flow outcome for the quarter was well managed. In this environment where every dollar counts, we are very pleased with our ability to protect cash especially considering the steep decline in operating earnings.

Also worth noting was our ability to limit our capital expenditures. For the quarter, CapEx was $35 million which was significantly lower than the $97 million invested last year. As I discussed earlier, we did use about $14 million in cash to repurchase a limited amount of bonds during the quarter. The pricing provided a good opportunity to reduce debt at an attractive price.

Our net debt position of $2.423 billion at quarter end is up $267 million from the balance at year-end 2008, but down $176 million compared with the balance at the end of the first quarter of last year. Again, another positive outcome for us considering the environment. As you know, we have no significant debt maturities until 2012 and have liquidity available to us of approximately $1.5 billion.

Subsequent to the quarter end, we have drawn down our revolver fully given the uncertainty in the financial markets and more specifically in the automotive industry. It is important to note that at the end of the first quarter, we were in compliance with our key financial covenants. However, based on our current forecasts, it is unlikely that we will remain in compliance throughout the remainder of 2009.

At the appropriate time, we will work with our bank group to amend our facilities in a fair manner. We feel confident in our ability to reach an agreed amendment with our banks.

Switching subjects now to our expectations for the second quarter and the remainder of 2009, similar to our last earnings call, we are not providing earnings guidance today. With changes to production schedules and other economic assumptions happening on a daily basis, providing an accurate and meaningful forecast remains difficult in this environment.

John discussed our revised full-year expectations for production in North America and Western Europe, down 35% and 21% respectively, which should translate to full-year sales for us in the range of $10.1 billion to $10.5 billion. Assuming the midpoint of that range, our sales will be down 31% from 2008 or $4.7 billion. A portion of that decline will come from currency movements.

For the second quarter, we expect sales of approximately $2.5 billion, which will be about 44% lower compared to the second quarter of 2008. Lowering our costs and protecting our liquidity remain our top priorities in light of the forecasted level of sales. Every cost and cash flow item is being challenged and managed to optimize our cost structure and cash flow in this environment.

As John indicated earlier, we expect capital spending to be approximately $300 million, which is less than our earlier projections. With regards to restructuring charges, we are continuing to look at other actions that will be necessary in reaction to the current environment. At this point, we expect our full-year cash restructuring to be approximately $90 million, up $40 million from our previous guidance. Second-quarter restructuring is forecasted at approximately $25 million.

As you can tell from our comments today, the industry continues to face significant challenges. We continue to work hard to mitigate those challenges as we navigate through this unprecedented time period in the auto industry. We remain cautiously optimistic regarding global vehicle production and are encouraged by the success of our restructuring and cost containment actions already implemented. I am confident we are executing the right strategy to manage through the current downturn and ensure long-term success for our Company.

One last item before moving to your questions. As Mark indicated earlier, we expect to file our 10-Q for this quarter within the next day or so. Included in the operating segment portion of the filing, you will notice that the Company has begun to manage and therefore report our electronics business separately from our other segments. Thank you.

We will now move to the question-and-answer portion of the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Himanshu Patel, JPMorgan.

Himanshu Patel - *JPMorgan - Analyst*

Good morning, guys. Can I get the EBIT impact from foreign exchange?

Joe Cantie - *TRW Auto Holdings Corporation - EVP and CFO*

It was 444 on the sales line and it was roughly around 8% on the P&L side.

Himanshu Patel - *JPMorgan - Analyst*

8% down versus year ago?

Joe Cantie - *TRW Auto Holdings Corporation - EVP and CFO*

No, 8% on the $444 million, so roughly speaking, it was about $35 million, $36 million.

Himanshu Patel - *JPMorgan - Analyst*

35, 36, okay understood. And then, Joe, how should we think about these decremental margins going forward, the 15% rate or even if it is a little bit higher cleaned up for FX, it's still much better than what you would have expected in most of 2008. Should we model this sort of level in Q2 and the rest of 2009?

Joe Cantie - *TRW Auto Holdings Corporation - EVP and CFO*

Yes, you often hear me say that our contribution margin is somewhere 25% plus. I think it is great that we have been able to achieve something like the 15% you saw in the first quarter. There are a number of things that went into that. First of all, there's the effect of the currency. Secondly, we are really containing just about every cost you can imagine and we will continue to attempt to do that, but you have to wonder if that's sustainable over the future.

So it's my way of saying that I don't think you can model in the 15% every quarter. I think it needs to be something higher than that, perhaps not as high as the 25% given the cost containment and restructuring we are doing, but it's probably somewhere in between those.

Himanshu Patel - *JPMorgan - Analyst*

Okay and then you mentioned your European sales excluding FX were down 27% and I think you mentioned industry was down 41%. What's driving the content growth and should that continue going forward?

Joe Cantie - *TRW Auto Holdings Corporation - EVP and CFO*

You know, I think mix plays a big part of it, Himanshu. The reporting of production by folks like CSM and J.D. Power sometimes moves from quarter to quarter. I think that gap between the 41% and our 28% decline, I wouldn't expect that to continue and quite frankly, there's certain quarters where it might move the other way. Remember -- recall that we do have an aftermarket group and we do have some commercial business out in Europe. So there's a number of those things that sort of cloud that comparison. But again, there are certain quarters where it flips the other way, so I wouldn't expect that to continue at this point.

Himanshu Patel - *JPMorgan - Analyst*

Okay, two last questions. The electronics business, by breaking it out, does that indicate that that could be a divestiture candidate?

John Plant - *TRW Auto Holdings Corporation - President and CEO*

Absolutely not, no.

Himanshu Patel - *JPMorgan - Analyst*

Okay.

Joe Cantie - *TRW Auto Holdings Corporation - EVP and CFO*

Himanshu, let me add, it is just the importance of electronics going forward in the vehicle and we felt that managing our business with more focus and having that direct interface to the customers is very important for the long-term future of that electronics business. (multiple speakers)

John Plant - *TRW Auto Holdings Corporation - President and CEO*

Himanshu, the focus we are giving as I mentioned in fact during my sort of part of the call this morning, the advancements we have made in terms of the integration of the [car] sensors and the (inaudible) sensors and that was with -- just one example, it was with one of the Japanese vehicle manufacturers. We have also with increased focus been putting out over the last year or two major strides forward in our short range radars and with several development contracts. So something which I think we want to try to nurture.

Himanshu Patel - *JPMorgan - Analyst*

Lastly, Joe, for your debt covenant calculations, are cash restructuring costs included in the EBITDA number that's used?

Joe Cantie - *TRW Auto Holdings Corporation - EVP and CFO*

Covenant compliance, the first $50 million of cash is not counted towards covenants. Anything over $50 million is.

Himanshu Patel - *JPMorgan - Analyst*

Okay, so is there anything to read here [about] increasing your restructuring spend? Is that -- is it as simple as saying you need to restructure more and that's why you're doing it given industry volumes or does it also indicate that you are getting more comfortable that the banks will give you some sort of pass on that?

John Plant - *TRW Auto Holdings Corporation - President and CEO*

I think the way you should interpret it, Himanshu, is we have driven I think cost out to a very high degree. You can see from what we've done, we have flexed every variable cost commensurate with production or sales. And on top of that then we've flexed fixed costs to give us the level of contribution that we talked about earlier. And so having done it so much, what we are trying to do is really position ourselves for the upturn.

And I mean we've taken a cautious view of vehicle production in the shorter term so we have given you our assumptions for this year and we want to right size the organization such that we can be profitable at much lower levels of production, so come the day when volume does increase, then we expect to be -- I will use the word pleasantly profitable -- without giving you exact calibration of that.

So we've seen the opportunities for furthering -- I tried to say to you during my current part of the call that if you look at the level of cost flex we have achieved with a very modest level of restructuring, if you look over the last two quarters, and I just see the opportunity for sort of doing that again in the second and third quarters and basically trying to drive ourselves to a level of cost flex which gives us the opportunity to earn profit at a much lower level of production. And say one day production will increase and we are going to feel good at that time.

So it is nothing that you should read into it relative to bank covenants. It really is good housekeeping, the opportunity of reflexing the organization commensurate with the demand. So I will say, we are doing the right things for the business. The same as we have continued to do the right things for the business in terms of engineering, winning new contracts, I talked about biggest stability control contracts that we have ever won for the Company also happened in the first quarter. Of course that won't come into production for the next couple of years or it will start then and gradually ramp up.

But I think we are doing the right things. So you should look at restructuring as doing the right things in the context of the industry circumstance.

Himanshu Patel - *JPMorgan - Analyst*

Thank you.

Operator

Chris Ceraso, Credit Suites.

Chris Ceraso - *Credit Suisse - Analyst*

Good morning. A couple of things. I remember in '01/'02 and maybe '04/'05, TRW seemed to be one of the big suppliers that had maybe more issues than most with struggling tier twos and threes. Can you give us an update on what's happening now particularly down the Chrysler supply chain and how it is impacting you?

John Plant - *TRW Auto Holdings Corporation - President and CEO*

Okay, well first of all, I'm not really clear that which you are referring to in 2001, 2002, or 2004, Chris, and I do happen to have been here for all that period of time. I do know that we have referred to it and on each call generally we have been saying roughly each quarter there has been two or three suppliers which we have had to manage during that previous period of time. And it may have been slightly increased in the 2005 timeframe when you saw a lot of significant bankruptcies even in banks the tier ones in North America. But really at this point nothing dramatic.

We have a lot -- we do have a lot more companies on our radar screen. We have been managing actively through that. In fact, what we have been trying to do this last few months in fact we're going to be doing it even more during the next three months is to try to identify potential areas of vulnerability before they occur. And rather than react when they have occurred, we are trying to take actions such that we are not left with I would say holding the bag in terms of having our tooling at suppliers which are in financial trouble.

Now we have some troubled suppliers this quarter. We believe we are going to have some in quarter two and we will have some in quarter three. We are driving hard to try to minimize that. I mean you've seen us talk in previous calls about moving our sourcing footprint to low-cost countries. We have been trying to do that in a thoughtful way, trying to make sure that the supplier base that we've been using has got a I'll say a robust financial structure, has the ability to fund proper program management to give us good launch management. Hence you can see if you looked at our incoming supplier PPMs, it is in fact a new low for the Company and our overall delivered PPMs at 6.

So what I would say to you is it is a feature of the landscape. It's certainly something which we are very conscious about. We've probably got double the amount of suppliers on our radar screen at the moment compared to the average that we've had in the last couple of years because of the extremely low volume. But my real concern is as the industry starts to increase rather in the next month, I will say to you, because I think if suppliers have been paid particularly here in North America, then they should be okay for the next month or so. Which when volume increases I think is a major problem coming and we are trying to move in advance of that.

So I would say it's a problem. It's an ongoing problem. It will be just nice to get to maybe next year when hopefully it is a less of a problem.

Chris Ceraso - *Credit Suisse - Analyst*

The topic that you just brought up, John, is something I also wanted to talk about. I remember that folks were worried in December that as production started to ramp up in Q1 that would cause a working capital outflow. It seems like maybe that's been pushed to Q2. Is that going to have an effect on your own cash flow? Q2 is generally a better cash flow quarter in terms of working capital if I remember correct. Is it going to be a little bit less healthy this time because of the timing of the production ramp?

John Plant - *TRW Auto Holdings Corporation - President and CEO*

I would say within our forecast I'm not sure that I can comment on a quarter-by-quarter basis. Clearly when you look at it on a year basis, it very much depends upon the rate of climb, indeed if there is a rate of climb in the fourth quarter in terms of the year-on-year movement. What I would say to you is at the moment we are trying to manage our cash very carefully.

The most notable way we are doing it beyond the normal good housekeeping is trying to contain our capital expenditure. You have seen the levels we've talked about. So the sort of let's say in a very broad sweep you should think about -- we have tried to contain ourselves. We've incurred operating losses in the last two quarters in quarter four of '08 and this quarter. And if you look at the change in spend of CapEx compared to D&A, we try to match those two off such that we don't use cash.

I think Joe referred to the fact that at the end of this quarter in fact, our net debt is lower than the equivalent quarter in 2008. I'm hopeful that we are able to do that in the next quarter and the quarter after that. And for the end of the year at this point, it's too difficult to call because things change so rapidly. I mean yesterday we were reading about the government-sponsored scrappage plan. That would be fantastic if that comes on board. It would be nice to see something in North America and -- or relatively speaking for the US.

And then the question is what production does that respond to? Quite honestly, the best problem I'd like to respond to right now would be the problem of increasing production. If I could see a 20% increase in North America, I would welcome that. So please give me that problem, Chris.

Chris Ceraso - *Credit Suisse - Analyst*

Just last one on the scrap program, I think you mentioned this in your comments about the effect that that is having on the mix of vehicles that are being sold. Is that having any particular effect on TRW as far as your platform exposure? Is there an issue with the vehicles where you have stronger content that aren't really responding to the program?

John Plant - *TRW Auto Holdings Corporation - President and CEO*

No, I don't think it's a particular problem for us. I mean you would have to get right down into some very specific product areas to say where we are up or where we are down again to. But as a broad sweep through, we have I will say good content on both the small and medium car platforms. I wouldn't like to say that it's helped our mix in the first quarter because I think an earlier question was about that. I would say we're just nicely balanced across the spectrum and say just pleased to see those small cars coming through.

Now at some stage what I've been reading about if you look at Germany for example, there's been a lot of newly used cars which have been sold as well. So it's cleared a lot of inventory out of those vehicles in the C and D segments. So I'm hoping as that inventory problem is now being cleaned out, because you could buy a car up to one year's old in that particular scrappage scheme, and then we'll begin to see some additional momentum in the back half of this year behind those I'd say -- in the middle sized vehicles.

Chris Ceraso - *Credit Suisse - Analyst*

Okay, that's helpful. Thanks, John.

Operator

Rod Lasch, Deutsche Bank.

Dan Gauss - *Deutsche Bank - Analyst*

Good morning. This is actually Dan Gauss in for Rod. Can you just -- is the debt restructuring gain, is that something that will stay in your LTM EBITDA calculation for the covenant?

Joe Cantie - *TRW Auto Holdings Corporation - EVP and CFO*

No, it's not included.

Dan Gauss - *Deutsche Bank - Analyst*

Okay, and can you just give us the progression of the revolver? I think maybe at the end of the quarter you had possibly like $300 million utilized and then drew up to 1.3. Is that the full capacity right now?

Joe Cantie - *TRW Auto Holdings Corporation - EVP and CFO*

It is. It's -- our revolver is just slightly under $1.4 billion. We lost some capacity when Lehman went bankrupt, so approximately 1.3. We are probably a little bit above the 1.3 so we are fully drawn on it.

Dan Gauss - *Deutsche Bank - Analyst*

Okay, thanks. Then my last question is in terms of the shortened work weeks in Europe, can you talk a little bit about how short they are at this point? And in terms of the government subsidies that help out with that to make the workers somewhat whole on their pay, when do those subsidies end and what would be the plan at that point?

John Plant - *TRW Auto Holdings Corporation - President and CEO*

You've got -- we have had plants that have been on four-day weeks, three-day weeks, and a couple on two-day weeks during the first quarter. I think short time working will clearly be lower in the second quarter in Europe because of the production increases. But it is commensurate with us trying to maintain efficiencies.

If you look at the country-by-country, you end up anywhere between paying let's say 30% through 50% approximately of the pay on the short time days, so you don't take the whole pay during that day and then the government provides the subsidies for the employees that takes them back up not totally, but I'd say fairly close to their original pay. So those things are in place. Its varies differently between Spain, France, Germany and the UK as examples, really nothing in Eastern Europe.

And then in terms of duration, there's been several governments which have increased the duration of these plants out through 2010 right now. So they will remain available to us during the balance of this year and into next year should we need them.

Dan Gauss - *Deutsche Bank - Analyst*

Okay, thank you very much.

Operator

Brett Hoselton, KeyBanc.

Brett Hoselton - *KeyBank Capital Markets - Analyst*

Good morning, John, Joe, Mark. Joe, credit facilities. Your expectations on timing, is that something that you hope to get resolved here in the second quarter or is it something like out into the third quarter?

Joe Cantie - *TRW Auto Holdings Corporation - EVP and CFO*

I'm not sure, Brett. We have constant dialogues with our banks. We keep them apprised of our situation. We have had discussions with them about the possibility that we may need an amendment, but we are not in the heart of the process yet and don't know what the timing will be. The good news is that we have time yet.

Brett Hoselton - *KeyBank Capital Markets - Analyst*

Commodities costs. Some of the suppliers are seeing some improvement in commodities costs as a result of lower steel prices, etc. You didn't necessarily mention commodities costs. Is there an expectation that commodities costs or lower commodities costs might be a tailwind for you?

John Plant - *TRW Auto Holdings Corporation - President and CEO*

I would say in the first quarter not much of anything. Essentially because in the -- during 2008 where we provided increases to certain of suppliers, then there's a carryover effect into 2009 of those. At the same time there's been commodities which have fallen and again, depending upon different commodities and different indices that we've also seen commodities fall, so I don't think -- I think if you took the carryover inflation on the deflation we have incurred in the first quarter, I would say not much of anything.

If I look forward based upon today's commodity indices, then I would hope that that's a beneficial thing for us as we go through the balance of year, but I am not willing to call it at this point.

Joe Cantie - *TRW Auto Holdings Corporation - EVP and CFO*

I was going to say you need to actually produce and sell some vehicles to take advantage of the lower commodity costs.

Brett Hoselton - *KeyBank Capital Markets - Analyst*

Fair enough. If you were to benefit let's say, if we were to produce and sell some vehicles and you were to be able to take advantage of -- is that something that's probably going to take a quarter or two? Would it be a back half of the year event because of some of lag effect or is that something that would affect you relatively soon?

John Plant - *TRW Auto Holdings Corporation - President and CEO*

I think you should consider it that way, Brett. Think of it more in the second half as a beneficial thing if production increases and also the carryover, the carryover inflation obviously falls away and then the more the deflation comes in. So I think you should think of it more in the second half.

Brett Hoselton - *KeyBank Capital Markets - Analyst*

Then as you think about new business, some suppliers are seeing some opportunities for near-term marketshare gains let's say take over from distressed competitors and so forth, are you seeing anything along those lines?

John Plant - *TRW Auto Holdings Corporation - President and CEO*

Yes, we have. We are either examining or we are actually sort of transacting some of that right now. But in our really big areas like let's say like air bags or something or let's say brakes, we've got a pretty stable competitive base all (inaudible) big guys. So I don't think there's anything massive. At the same time, there are things which are happening where there are -- there is a weakened supply base and certain vehicle manufacturers would like to I'll say -- flight to quality -- and they believe TRW is a quality name.

Brett Hoselton - *KeyBank Capital Markets - Analyst*

And then finally, and John and Joe, this is just a conceptual question and I'm not exactly sure how you're going to answer this. But substantial production shutdowns here at GM and Chrysler in the second quarter. Obviously the supply base is under distress. There a potential with a bankruptcy at Chrysler and the potential for a bankruptcy at GM for this to extend out but yet we have all been thinking about this for at least six months now.

As you look at your supply base and as you think about conceptually the supply base for the entire industry, do you think that the supply base is prepared to deal with these kind of shutdowns without some sort of a material production disruption occurring? How confident would you say you are that they are able to deal with this?

John Plant - *TRW Auto Holdings Corporation - President and CEO*

I would rather you asked I guess the guy who's got to be really worried about that at the moment. It's going to be people like Ford who they are not in the two names you mentioned. So it would probably be easier for them to answer that question than TRW because they will have a broader view of the things which are going to impact them immediately across -- in terms of vehicle build. Or maybe you could ask Toyota or Honda. I'm sure they've met with the automotive task force and discussed this very point.

But I have already given a pretty comprehensive answer, Brett, in terms of our supplier exposure. We certainly are dealing with some problems. We have some on our radar screen at a heightened demand but so far we've managed through them and we are trying to be more proactive rather than reactive to the situation. But for sure we are going to have others to deal within the next, I'd say, six months.

Brett Hoselton - *KeyBank Capital Markets - Analyst*

Fair enough. Thank you very much, John.

Operator

Kirk Ludtke, CRT Capital Group.

Kirk Ludtke - *CRT Capital Group - Analyst*

Good morning, gentlemen. I am on slide 19 and I just -- I was hoping to think about a pro forma liquidity calculation because you've got a couple things happening here. I guess you've got a couple of the accounts receivable facilities terminating and that would reduce liquidity. On the other hand, you know you've got these accounts receivable government-supported accounts receivable programs that are being introduced. I'm just curious how might those two adjustments affect the total liquidity?

John Plant - *TRW Auto Holdings Corporation - President and CEO*

First of all on the government ones, I will comment first on those, Kirk, and then pass this question across to Joe. We said we are using the UST program. We view it as insurance, really, and that's all we are using it for. Because we don't want to lose our receivable and therefore damage our liquidity that way. Albeit we've noticed that the -- I will say the presiding judge in the Chrysler bankruptcy has agreed for prepetition payments to the supply base.

So I still think it was good insurance to take out and basically it's a program we wish we didn't have to use and didn't want to use because of its cost and I guess the sooner we can find a more stable position where we can exit using that program, the better, really, because it will be a sign of a healthier industry, healthier customers, and we don't need to pay the costs of basically insuring against the bankruptcy of our customers. Because that wasn't in however we bid those products out in the first place.

So UST I think should see as a temporary nature and hopefully it will come and it will go very quickly for us. We don't want to use it and then I will pass across to Joe.

Joe Cantie - *TRW Auto Holdings Corporation - EVP and CFO*

Kirk, just to answer your question, we did have to end our US A/R facility in order to allow us to go into the UST program and the funding under the UST program is probably equal to or better than what we would've had at the A/R facility. And then, you know, there is -- we have the ability to put a new AR facility in place. So when we decide to get off the UST program or when the UST program ends for us, we will quickly move to replace that.

The same thing with some of the other comments that you will see about some of our other facilities around the world. A lot of that is us maneuvering to change our programs or working with our banks to change the programs. So when I look at going forward, I don't envision us actually having less A/R facility liquidity. If anything, it will be equal or more once we move to swap and move, if I can say it that way.

Kirk Ludtke - *CRT Capital Group - Analyst*

Yes, I guess that's where I was headed. I would think this would be higher, wouldn't it?

Joe Cantie - *TRW Auto Holdings Corporation - EVP and CFO*

Yes, again since they are not in place today but of course we will work to make sure that we can maximize that liquidity. And what you see us doing is a lot of short-term actions to sort of use the UST program and other programs and better maneuver our receivable liquidities. And I would hope in the future that we would be higher rather than lower.

Kirk Ludtke - *CRT Capital Group - Analyst*

Okay, then with respect to the amendment process and I suspect that there will be negotiations surrounding pricing and the size of the revolver and probably a lot of other things as well as the covenants. But you mentioned earlier that liquidity was a priority and I was just curious if there was anything else you could add to how you view that trade-off between all those variables in this upcoming negotiation.

Joe Cantie - *TRW Auto Holdings Corporation - EVP and CFO*

Yes, you know we like liquidity, obviously, but as I said, we are going to try to negotiate a fair amendment if in fact we need to and I think at this stage, Kirk, I can't really say much more. I certainly don't want to prejudice the discussions we're going to have.

Kirk Ludtke - *CRT Capital Group - Analyst*

Okay, yes, I've got an even tougher question, which is more for John. And that is there anything you wanted to throw out there regarding the potential impact of Fiat, Chrysler, Opel, Vauxhall, any kind of thoughts on --?

John Plant - *TRW Auto Holdings Corporation - President and CEO*

What I would say to you is if you look at our diversity then I mean basically 60% of our sales in the first quarter were from Europe. If you were to look at within that, we are probably slightly overrepresented at Fiat. We have a good relationship so unlikely would not be over represented relative to vehicle production and we are hoping that that's (inaudible) a net positive.

I mean -- so seeing Fiat with the opportunity of bringing vehicles to North America and if some of their technologies are going to possibly be used at Chrysler in the future, then we would say that's probably a net good thing for us just because of the support we provide [interim] and the breadth of the product offering that we have with Fiat. Regarding Opel at this stage, I would not know what to say.

Kirk Ludtke - *CRT Capital Group - Analyst*

Got it, I appreciate it. Thank you very much.

Mark Oswald - *TRW Auto Holdings Corporation - IR*

Thank you, Mandy. That concludes the call for today.

Operator

Thank you. This does conclude today's teleconference. We appreciate your participation. You may now disconnect at this time.
