

## 2008 MANAGER OF THE YEAR

### Navistar's Daniel C. Ustian, a Standout in Revenue Generation, Leveraging of Assets

Daniel C. Ustian, chairman of Navistar International Corp., a leading manufacturer of International-branded commercial vehicles, IC school buses, Workhorse chassis for motor homes and step vans, and MaxxForce diesel engines, has been selected by *Stark's Truck & Off-Highway Ledger* as its 20th annual "Manager of the Year."

Following extensive research and independent determination, *The Ledger* believes the 58-year-old Navistar chief executive, backed by a bachelor's degree in business administration from DePaul University, is well deserving of recognition. His unique qualifications stem from a culmination of positions held during a 35-year stint at Navistar, including president of the firm's engine group, and other successful assignments.

He is board chairman of Blue Diamond Truck Co. LLC and Indianapolis Casting Corp., a board member of Monaco Coach Corp., the Manufacturers Alliance, and the board of trustees at DePaul University. He also is a member of the Business Roundtable, the Society of Automotive Engineers, the American Foundry Assn. and the Executives' Club of Chicago.

Since becoming the chief executive officer of Navistar in 2003, Mr. Ustian focused on profitable growth and efficiency of Navistar's operations. The firm is on track to achieve a record high level of revenue (\$15.00 billion) and executed a number of strategic programs—named the 'Three Pillars'—which broadened its product line via the leveraging of existing Navistar assets, and established a vitally important counter-cyclical portfolio.

Navistar successfully leveraged its commercial platform into new markets and drew extensive attention to the International brand with a move into the military business with the SmartTruck III. Military truck orders swelled to \$3.50–\$4.00 billion in 2008. Just as significant, a multi-faceted joint venture was established in India with Mahindra & Mahindra Ltd. The firm also entered the Class 8-type diesel engine business in a deal with MAN AG of Germany, building MaxxForce big-bore powerplants that will meet or exceed stringent 2010 engine emission regulations mandated by the U.S. Environmental Protection Agency.

Another venture with Monaco Coach will enable Navistar to enter the highly profitable Class 8-type commercial bus-making business by 2010. Bus bodies will be sourced externally. Chassis and diesel engines will be sourced internally. Another deal with Caterpillar Inc. will enable Caterpillar to enter a low-volume segment of the construction-type on-highway truck business in 2011 with vehicles and powerplants sourced from Navistar. Assembly likely will occur at Garland, Texas.

Mr. Ustian played an integral role in



*Navistar International Corp. Chairman Daniel C. Ustian: "It'll take us a year to design (a commercial bus) to our satisfaction and then, by 2010, we'll be in production" with a Class 8-type vehicle whose body is externally sourced for the \$1.00 Bln U.S. market. It'll be stall-base assembled by Navistar with a chassis and diesel engine sourced internally. A prototype already is developed.*

obtaining an alliance with Mahindra. Developing a range of Classes 6–8 trucks for the Indian market, engineers for both firms now are working 24 hours a day on new product. "The second thing (in the Mahindra venture) is...how do we get global sourcing done quickly? They (Mahindra) already have a supply base that is low-cost—considerably low-cost—25% of more lower cost than what we have. So, we took that and said 'OK.' Let's start with that and let's find some lower cost from our supply base. Our longer term plan is to make trucks. So, in June 2009, we will take our technologies and bring them into Class 6–7–8 trucks made in India. We think other things will come out of it. If they make smaller trucks over here (in the U.S.), maybe we can make the smaller trucks," the Navistar chairman explained.

Asked to explain Navistar's effort to generate a portfolio that diversifies and becomes counter-cyclical, Mr. Ustian responded: "Obviously, the military is one. We're going to grow in the military and grow on the parts side. We're going to grow in parts for the military and grow in parts for commercial trucks because parts don't have a cyclical calendar. The military area is one that I could argue is counter-cyclical to the economy.

"And then we're going into other parts of the world, which is counter-cyclical. In fact, I would argue that one of the great things that Mercedes and Volvo have is that Europe and the United States are statistically not on the same cycle. However, today everybody

(all markets) is down. This is a phenomenon that is peculiar to the industry. Normally, there's a counter-cyclical within the business by being global. South America's still strong.

"And then we get into Class 3–4–5. By its nature, it doesn't move more than 10–15% a year, rather than by 50% a year. So, go down in size but get into niches. We're not going to be able to compete with 700,000 pick-up trucks a year, but we can take niches in commercial trucks (vis-à-vis Mahindra venture) and sell 20,000–30,000 and be very competitive.

"I'll give you the latest one we have on commercial bus. We'll make the commercial bus in the U.S., competing with a small company like MCII. Now how could that small company compete with us? If we decide to get into that business and we find customers, we'll kick butt. Right? Because we have all the steel, all the expertise on trucks, buses. That's what we're going to do.

"I would argue to a smaller extent, it's our next version of the military business—commercial buses. These are \$400,000 vehicles that we should be very competitive in. That's a platform that's not cyclical. In fact, the higher gas prices go up, the better the business gets." Asked if commercial buses would be a natural fit for partner MAN, the Navistar chairman said, "Absolutely."

Hence, Navistar, with Mr. Ustian's astute stewardship, is on its way to expanding its revenue stream to \$20.00 billion annually during the next 3–5 years. "We've got to get thinking to grow," he said. "We hit \$15.00 billion a year early. When we hit \$15.00 billion, it was assuming an industry of about 400,000 units or more. We're going to be a little more than half of that, and we're still going to make the \$15.00 billion (revenue mark). The next step is to be at \$20.00 billion. We've got to keep growing...globally. We can't have the cycle affect us as the market changes. We're doing fine now but there's a lot more work before we can feel comfortable that when the next cycle comes along, we're going to be okay. We'll be at record profit in the history of the company at the worst point (for the trucking industry in 2008)."

A three-pillar business strategy developed and executed by Navistar with Mr. Ustian at the helm is reaping dividends for the company, its employees and shareholders. "Let me tell you how we got to the 'Three Pillars,'" he added. "We said that we have to have great product and a good cost structure so that we can invest and grow the business. So, we said, as a \$7.00 billion revenue a year company, we had to grow to \$15.00 billion by 2009 and make a profit in the business at \$1.60 billion. That doesn't count retirement or cost of money. At the time, when we were losing money, that's what

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we set up. So then, what we said were two important things.

"We have to improve the cyclical nature of the business so that in bad times we have something to offset it—like now. And the second thing is we don't have a lot of money. In my mind, leveraging what we have and what others have built is singularly the most important part of our strategy. And here's what it means—it means that we use the assets we have: our dealers, our employees, our products and our technologies. Using the assets that others have. I'll give you a great example. We never made a diesel engine for Class 8 trucks before. It costs too much money and we don't have enough volume to support it. So we found a partner—MAN. They designed the engine and they've given it to us. Why would they do that?"

"First, you can get synergies now because of our volume. Secondly, what we'll do is emissionize that for the next level because the U.S. is ahead of the standard versus Europe. So, the cost will be on us. We didn't invest any money in it. Instead of spending \$500.0 million, we spent nothing. We did a deal with Ford, too—leveraging the assets we have.

"Ford is in the medium-duty truck business. It's low-volume for them but they need it to support the full line of products and they need it to support their dealers. So, we went to them and said, 'Here's what we'll do. You don't need to fool with that and put your resources on new products or meeting of standards, or all that. We'll do it for you. And here's what we want in return. We want you to pay for the (vehicle assembly) capacity and pay for the paint. We'll share in the synergy.' So, we did that whole product for them. At the Escobedo (Mexico) plant, they paid a lot of money for us to increase capacity and put in a whole new system that we share. Now they're (Ford) happy because their market share has grown and they have a better product for the marketplace. We're (Navistar) happy because we now have more scale and we made some money off of it.

"You see. MAN is an example of them using their assets to help us and we, in turn, shared it with them. Escobedo is an example of us using our assets to share with Ford and obtain more profit from it.

"We will protect the items that are important to us—air management, fuel management and controls technologies.

Other than that, we're willing to share with others so we don't have to make all that expensive investment."

Mr. Ustain is one of the most capable executives in today's global commercial vehicle and bus-making business.

A six-month inquiry of current commercial truck business leaves little room for doubt that Navistar, under Mr. Ustain's stewardship as the primary officer of the entire firm, is properly prepared for the 2009 downside and the 2010 upside of a new business cycle.

In the 2008 fiscal year ended last October 31, Mr. Ustain expects North American industry-wide sales of Classes 6-7 commercial trucks will have slipped to 52,000-55,000 units, Class 8 vehicles will have tumbled to 163,000-168,000 units and school buses will have eased to 20,000-22,000 units.

Local market demand for Class 8-type trucks, a leading U.S. economic indicator, likely will continue to erode through the first half of 2009 and begin to recover during the second half of the same year, he believes. "Here's my own logic, not an official forecast. There's so much attention that's being brought to this challenge that something good will come from it. Today we see fuel at \$2.00 per gallon or less. That's not for truckers. The trucker is paying \$2.75-\$3.00 per gallon. And for the life of diesel versus gas, diesel's always been great—a little bit less (in cost) than gas, but not today. So that impacts as well—the cost of the haul. So we're trying to work with Congress. Why is there a difference now (in the cost of fuel)? I have a prognosis on that. If you look at the way oil is made here, a barrel of oil is made up of three components. It's made up of gas, which is the preponderance in the U.S. It's made up of heating oil. It's also made up of diesel. So diesel captures the balance. In Europe, it's the other way around.

"In the U.S., demand for gas is coming down but the demand for diesel is not coming down. Truckers aren't buying new trucks, but they're still hauling roughly at the same pace—it's pretty flat. So the amount of miles put on these trucks is the same whereas cars are coming way off so not its putting pressure on—the demand is greater than the supply for diesel and the prices are going up. We've got to fix this. If we fix this, that'll help trucking. If we

free up money (credit) so that our trucking companies can buy trucks, four to five months down the road the business will start to get better. But that'll take, perhaps, three events to occur—restoration of confidence in the economy, a freeing up of money and a better balance in the cost of diesel versus gas fuel."

Asked about action taken by Navistar to reduce the time it takes for the firm to design and bring new truck product to market, he replied:

"When we come up with all these new techniques for computerizing things—the model, the different ways to analyze data, etc.—at the end of the day, with all the great tools, expense and time, it wasn't changing the time from the start-up to the end. Typically, we take 3-4 years—closer to four years—from concept to production. We're going to do future trucks in three years. With the Class 8 LoneStar, it took less than two years. How did we do that? First, we used the ProStar. The two trucks (LoneStar and ProStar) are totally different. But underneath them there's commonality. The second thing we did was the cab. It takes a couple of years to develop the cab and get the right tooling in place. What we did was the modeling and then test it—develop the hard tooling from the drawing board. This (LoneStar) is the only truck ever known in the industry that's gone from the computer to production. We didn't do any hard tooling.

"We cut out an enormous amount of money and time. We did this program for a fraction (20%) of what it would take for a truck from start to finish. There was no prototyping.

"It's the same for diesel engines. We're going to do engines in three years. But, again, it's going to be using technologies that already are in place, using assets that already are there and finding communization. That's the way you do it. We recently did a 13.0-liter brand new engine. It was less than a two-year project. But it was taking an engine that was pretty well complete. Our philosophy now is try to take components and keep them as common as you can. That reduces the cost time."

Hence, *The Ledger* is of the opinion that Mr. Ustain is a standout in the automotive industries this year and is a credit to all business enterprises. He surely is one of the "best and brightest."