



Navigating a New Reality

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The COVID Automotive Supplier Journey

Pre-COVID

Jan - March

- Fall GM Strike Rebound
- China then EU then NA Output Ceased
- Liquidity consolidation starts

Prod Shutdown

Late March to mid-May

- System development slows
- A/R revenue continues
- Fixed costs continue
- Balance sheet fortification

Prod Restart

Mid-May to July

- PPE startup costs
- Low efficiency/ premium freight
- A/R receipts end
- Liquidity in focus
- OEMs fund most desperate suppliers

Pressure on supplier liquidity will be highest in the July/August timeframe.

New Reality

Next 4-6 Quarters

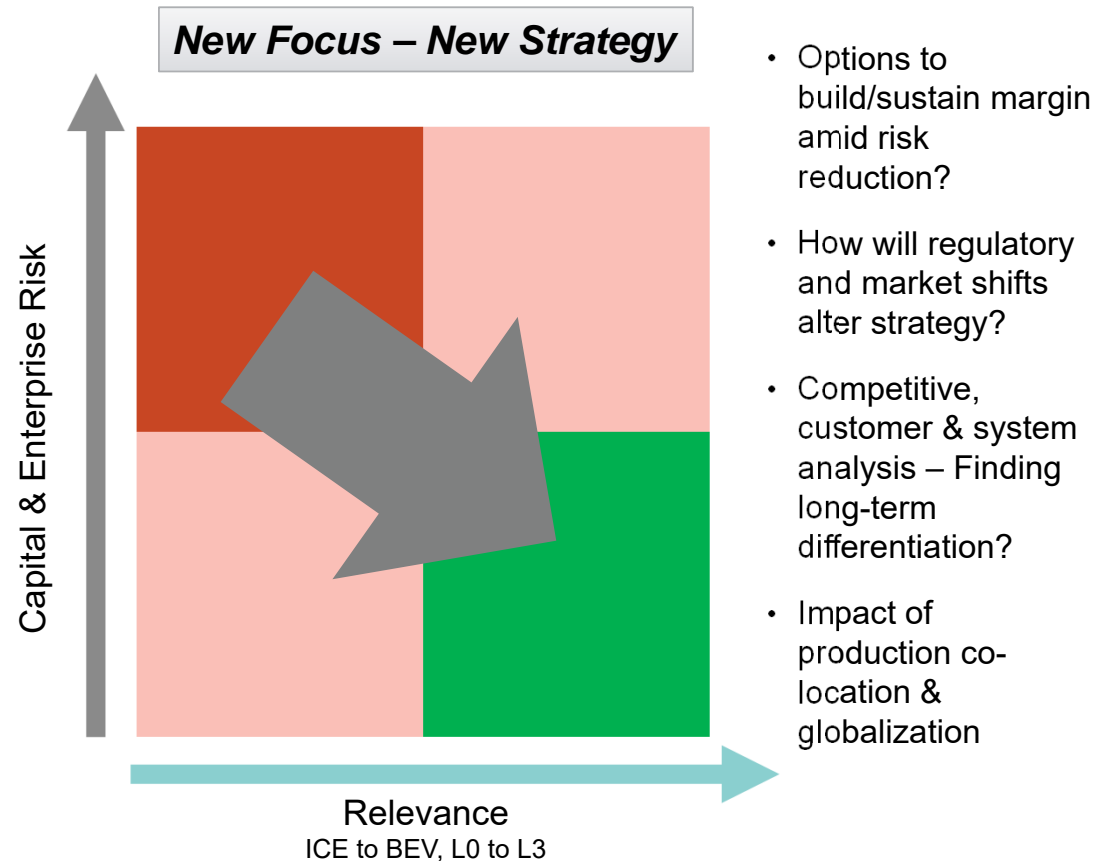
- Erratic demand & lower utilization
- R&D reduced and rescoped
- Reduced margin renewal
- Future programs delayed/ cancelled
- Debt-burdened suppliers seek funding beyond traditional banks

Supplier Strategy - Post COVID

Suppliers Re-Evaluate Their Position

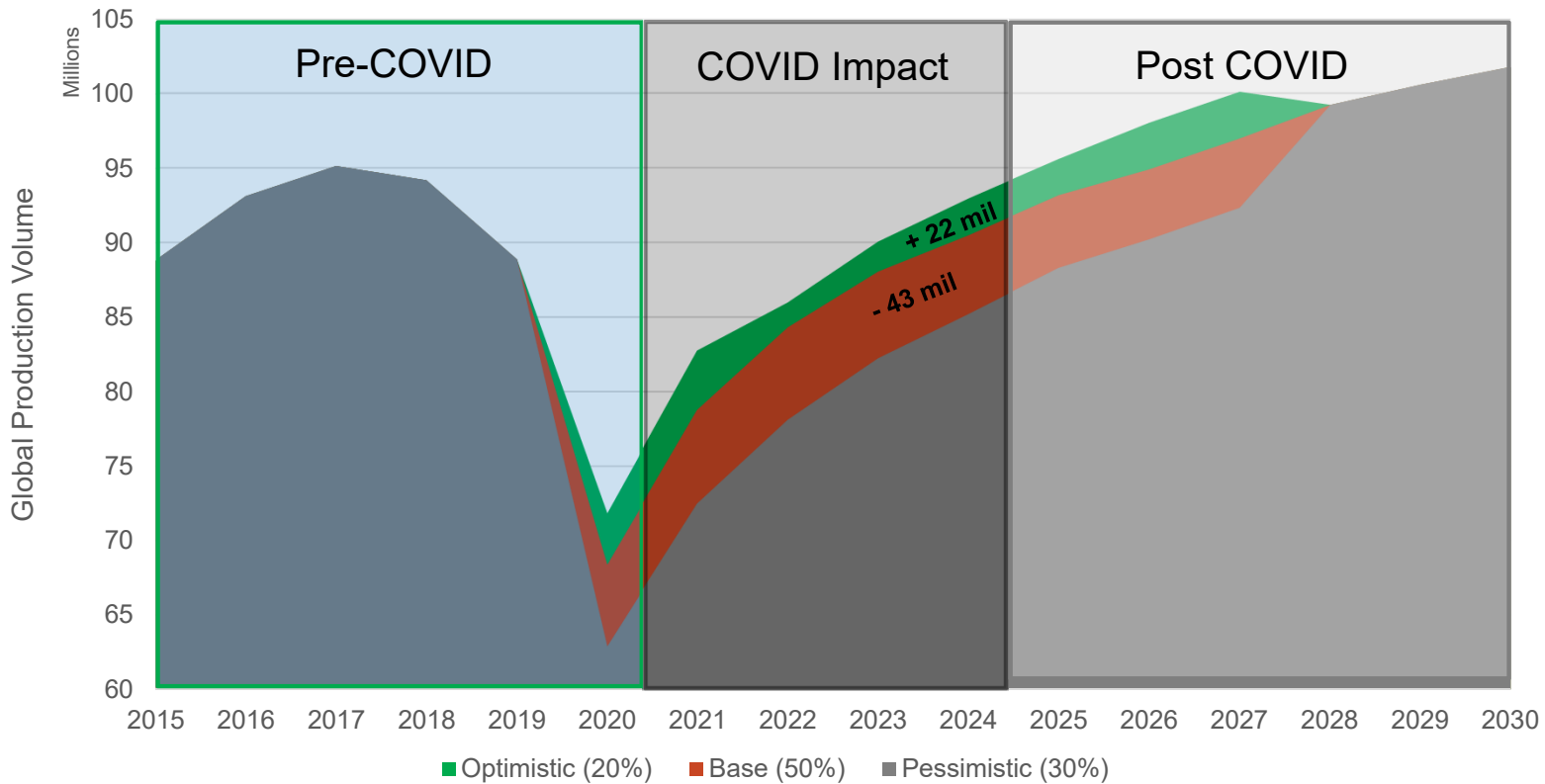
1. Take Stock
 - Trajectory of current/sourced programs
 - Volumes, timing, scope changes, capital commitments
 - Enterprise risk review
 - State of your competitive set
 - Fiscal position, OEM sourcing deck status
2. Intersect New Market Dynamics w/Capabilities
 - Key takeover and re-source opportunities
 - Weakened competitors, JV and acquisition possibilities
 - M&A into new sectors, vertical integration or geographies

How to differentiate, build margin & reduce risk?



Global Production Output Scenarios

Global Production Scenarios

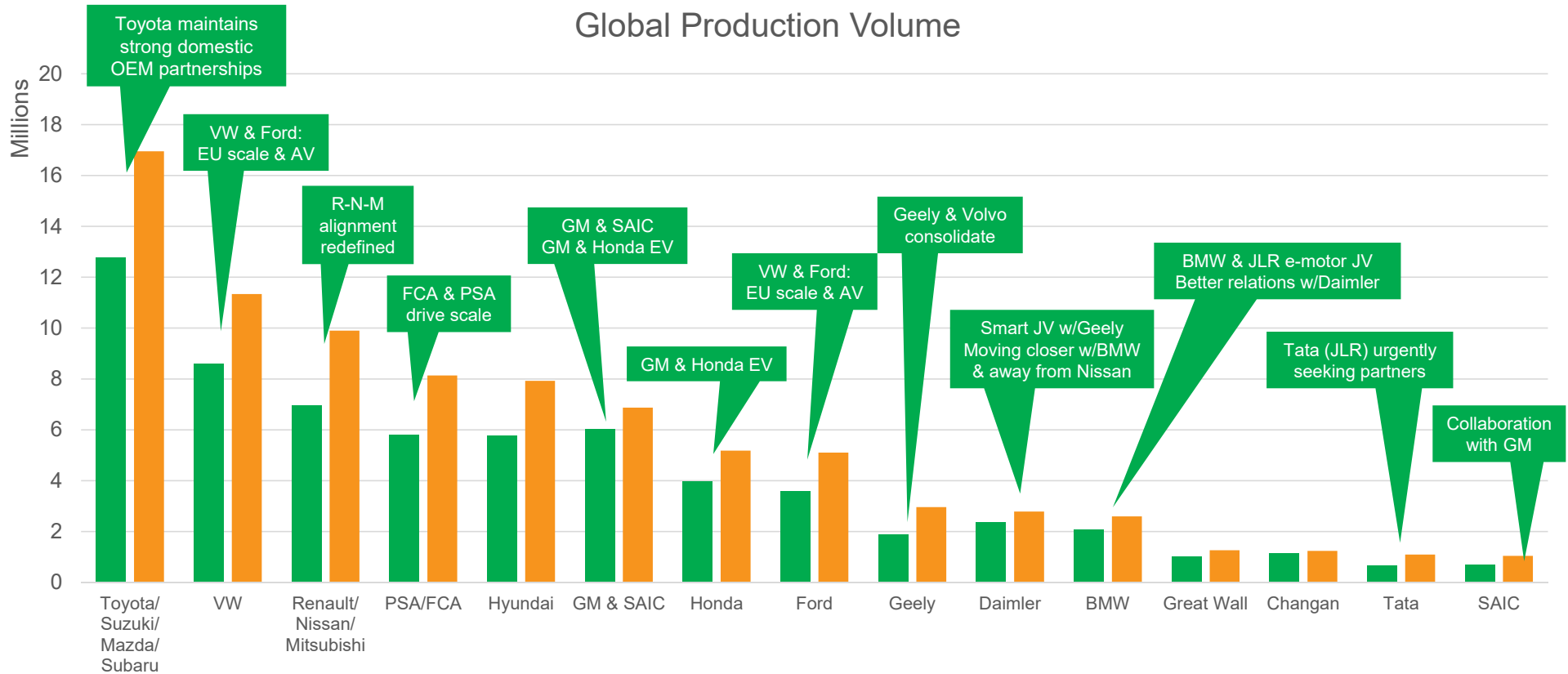


Scenario-based Strategy

- Significant shifts in competitive sets, upstream supplier viability and financial structures
- Success is driven by differentiation, scale improvement and reducing enterprise risk
- Less is more – suppliers which focus on fewer sectors /systems – striving for technology and cost leadership
- Electrified propulsion will continue – transition from ICE to Hybrid to BEV
- Regulatory regimes will be highly variable.

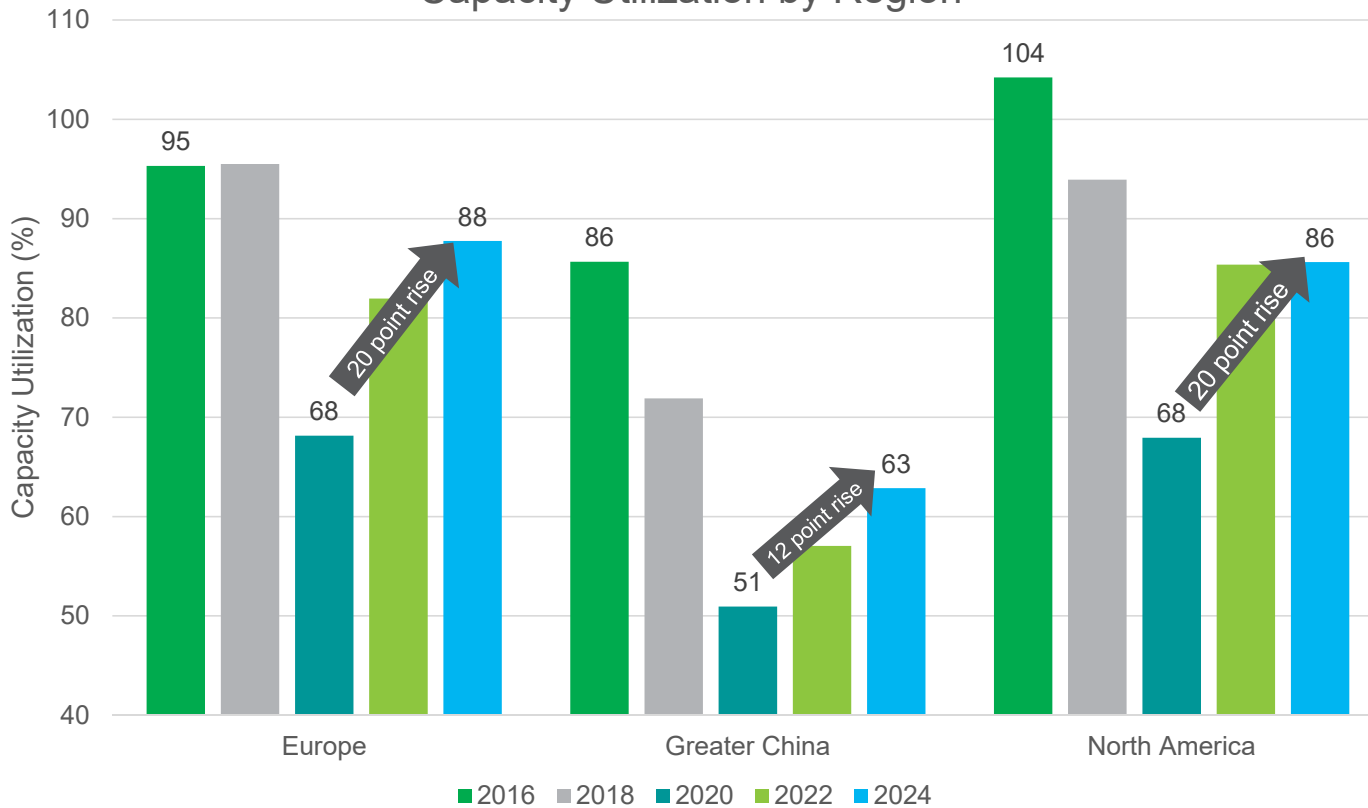
Top OEM Cooperative Groups by Production Volume 2020 vs. 2025

OEM Partnerships Enable Greater Scale, Risk Reduction and Cost Savings



Capacity Utilization Becomes Critical

Capacity Utilization by Region



- Weakness which started in China in late 2018 has continued into 2020 with COVID. Rebound through 2024 will not be sharp – consolidation required.
- Europe pullback in 2020 driven from COVID is significant, utilization improvement occurs with rationalization.
- North America dips below 70% in 2020 though the rebound into 2024 will be muted by new capacity by German and Asian OEMs.

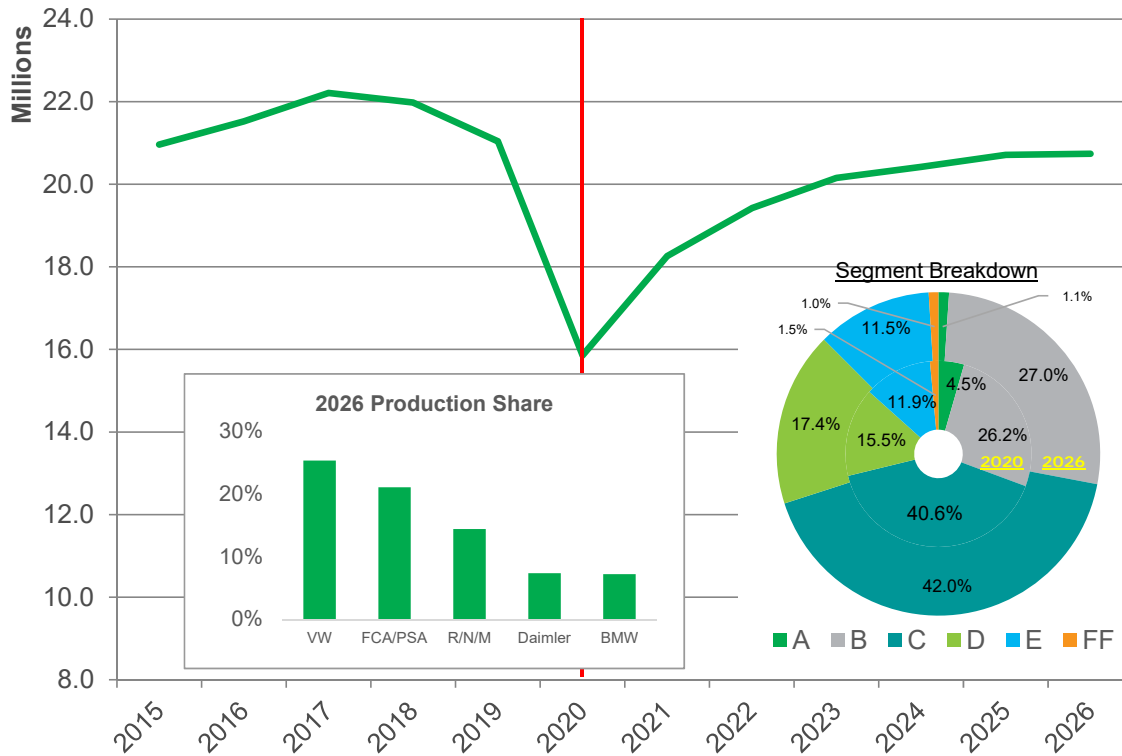
Normalized Capacity rates all facilities at 8 hours, 2 shifts and 235 days no matter what the working pattern is.

Production Outlook: Europe – Light Vehicle

Recovery quickly gives way to saturation



Europe LV Production



• Trends

- Uncertainty within EU about further destabilization – Hard Brexit and slow growth
- Export under pressure due to regionalization of supply
- Currency neutrality and focusing more resources on BEVs for the EU will pressure volumes (affordability)

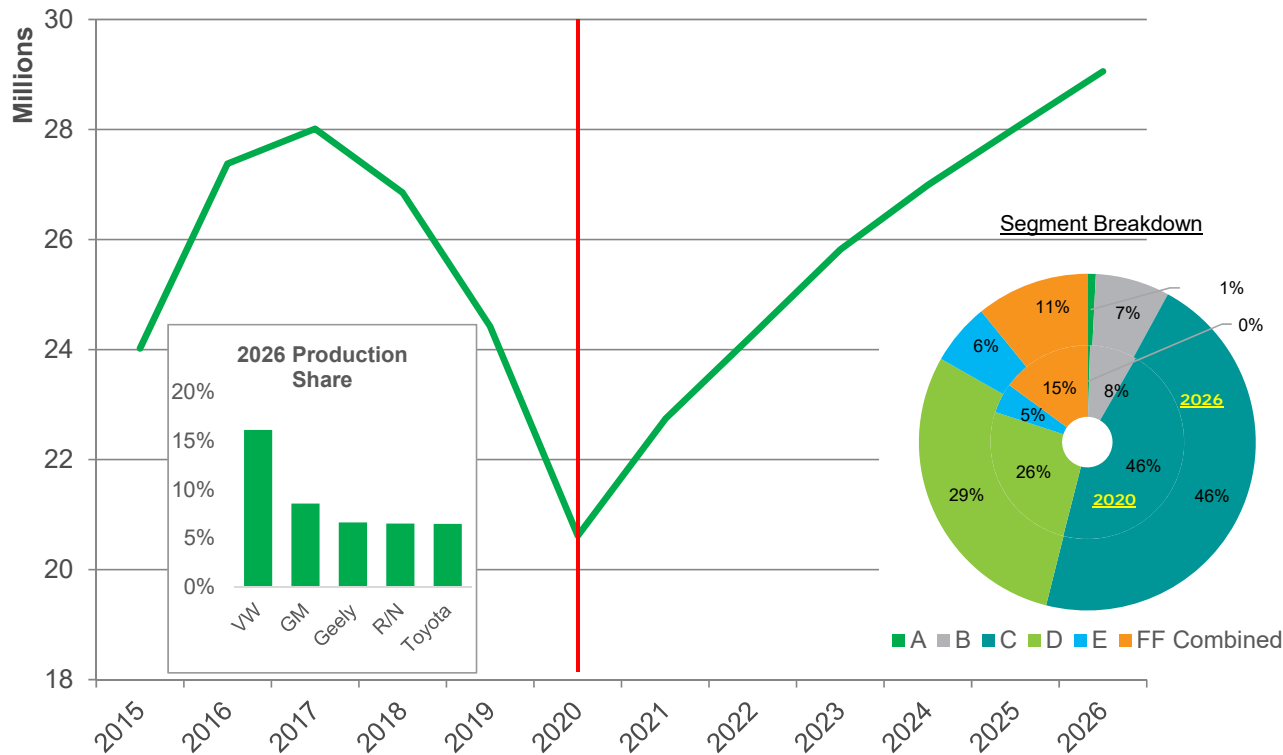
• Mid-term Shifts

- Localization will remain a competing trend to exports; Shift of volume to Middle East and Central/Eastern Europe - expansion

Production Outlook: China – Light Vehicle



China LV Production



• Trends

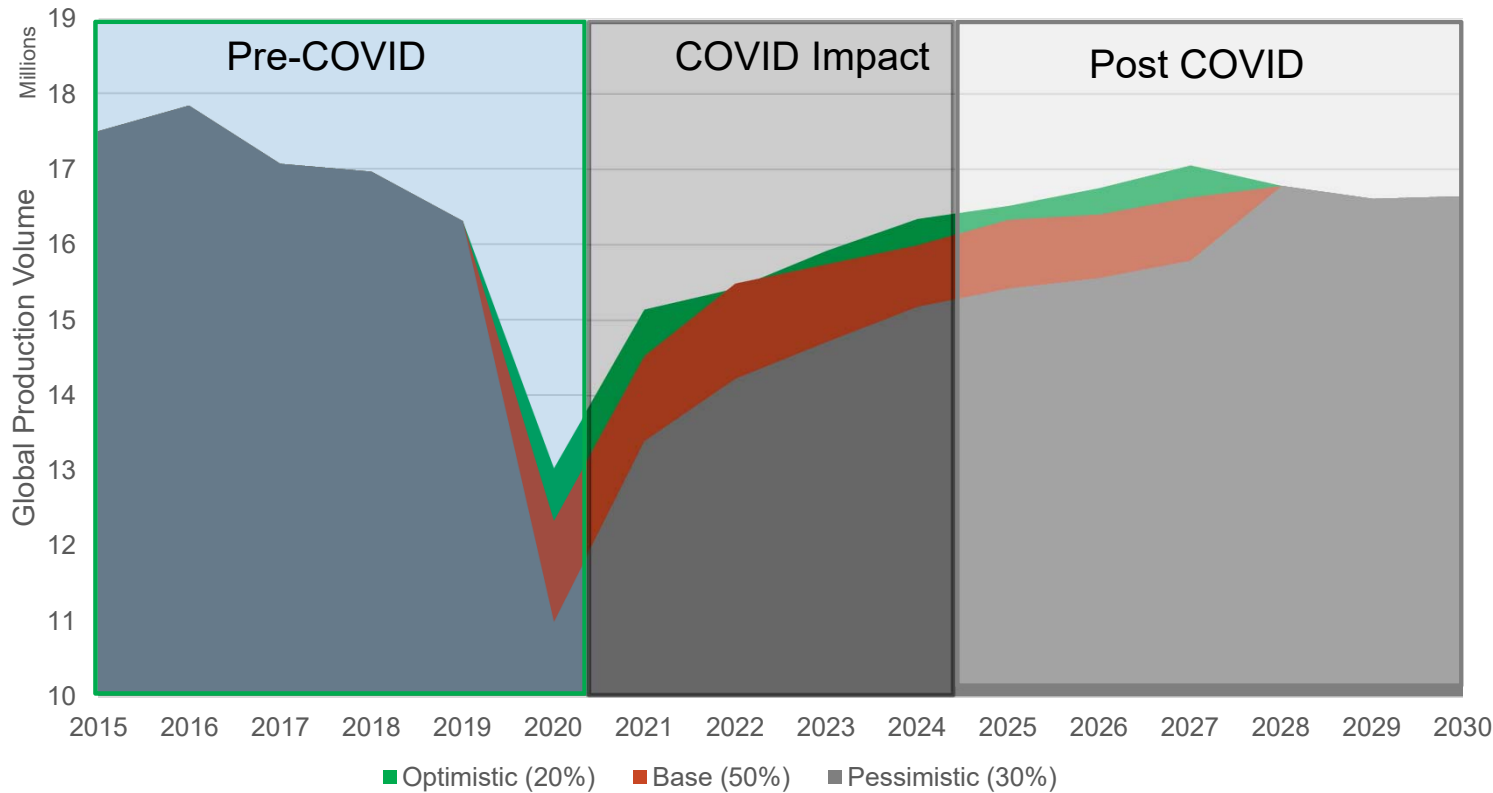
- 2020 will be the third straight year of declining volume for China – off 26% from the peak of 2017.
- Top 5 OEMs declined as a group by 15% last year – next five – only 10%.
- Western OEMs using their financial resources to drive near-term volume

• Long-term

- The number of domestic OEMs is likely to decrease as winners emerge and scale rises in importance.
- Long-term growth opportunities remain strong – A significant opportunity for vehicle sales growth exists in still “untouched” regions within China.

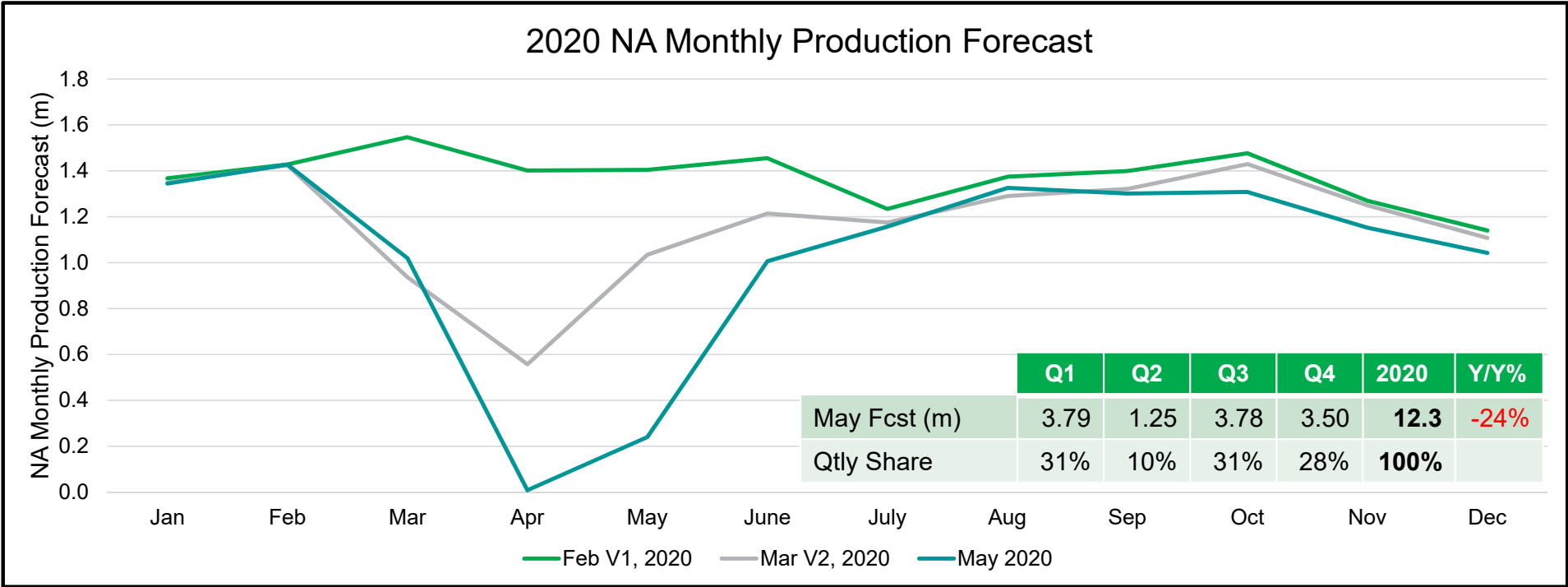
North American Production Output Scenarios

North American Production Scenarios



- **Optimistic (20%):**
 - Stimulus measures and low interest rates improve vehicle affordability in North America and boost demand.
 - Significant shifts in competitive sets, upstream supplier viability and financial structures
- **Pessimistic (30%):**
 - Renewed lockdowns cause US sales to slip 10% versus baseline or about 1.3m units in 2020.
 - Containment measures combined with a prolonged manufacturing slowdown owing to coronavirus have immediate impact

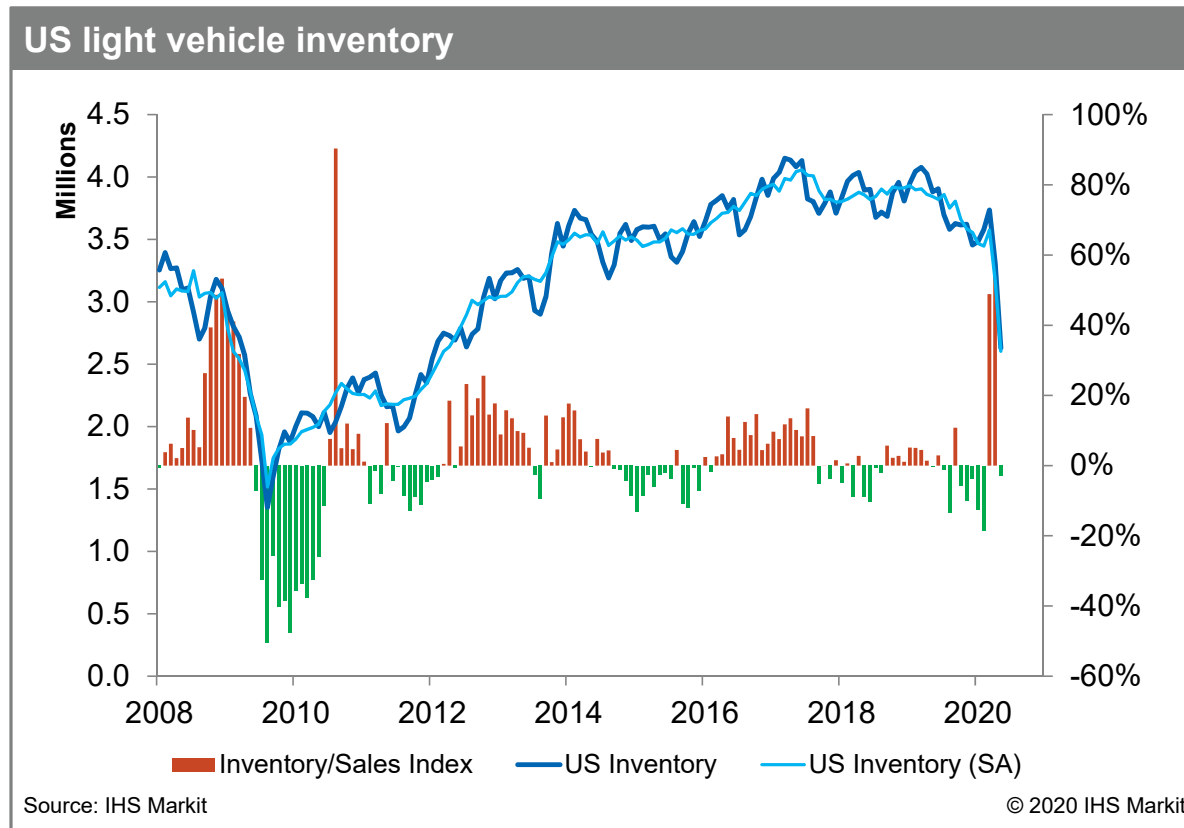
NA Production: Monthly Volumes are Highly Variable – Supply Then Demand



- In 2019, Q1 & Q2 each accounted for 26% of output. 2020 H1 volume is forecast to be off 41% from 2019
- June and July volumes come back quickly – inventory issues emerge in 4Q for several vehicles.

US light vehicle sales

Inventory self-correction amid COVID-19 related shutdowns

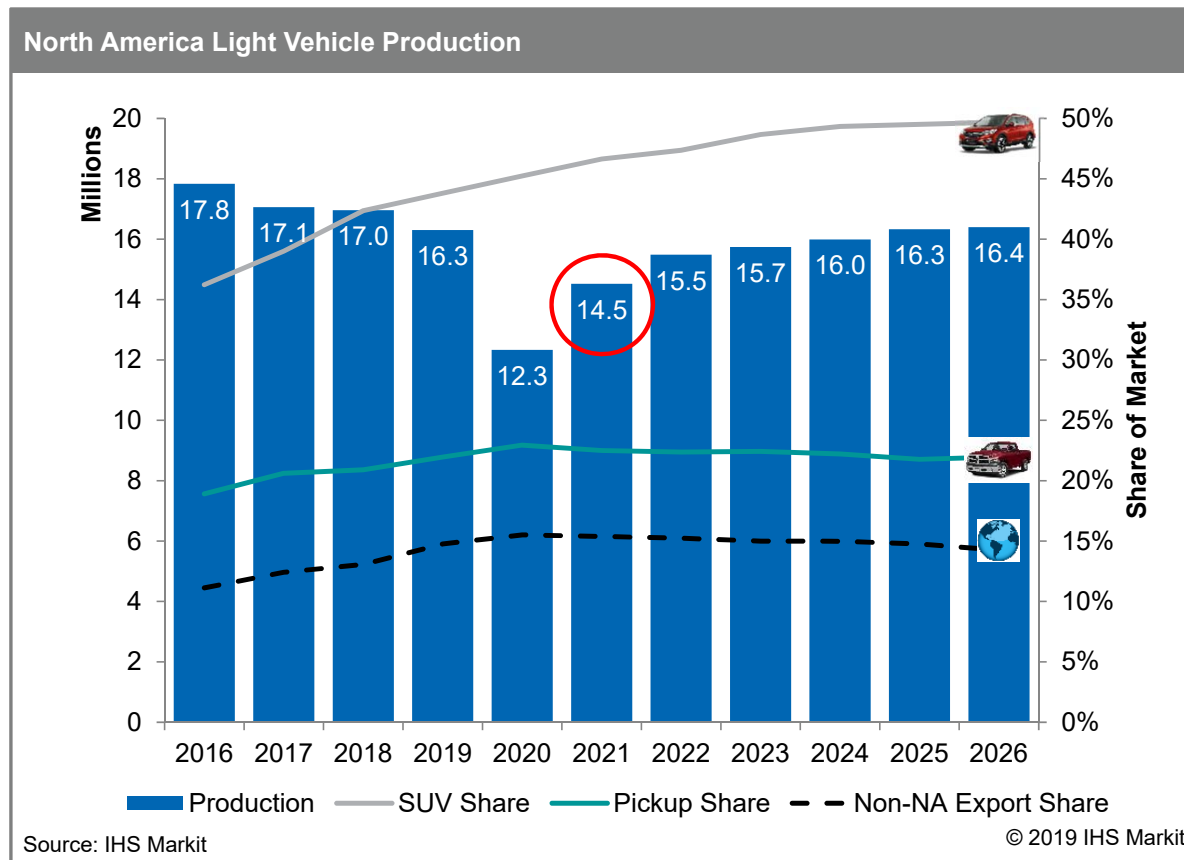


Inventory update

- Inventory to Sales Index
 - May 2020: -3.1%
 - COVID-19 shutdowns from retail to production affecting inventory
- Inventory: May 2020
 - Stock: 2.63M units or 62 days' supply
 - Inventory/Sales Ratio: 2.35
 - Y/Y: -1.25M units or -32.2%
 - M/M: -676K units or -20.4%
- Inventory levels decreased despite US sales falling 30.1% in May 2020
- COVID-19 related shutdowns led to inventory self-correction in two months
- Stronger production needed across a variety of products and segments

North American Light Vehicle Production Outlook

Demand Dictates a Slow Climb Towards a New Norm

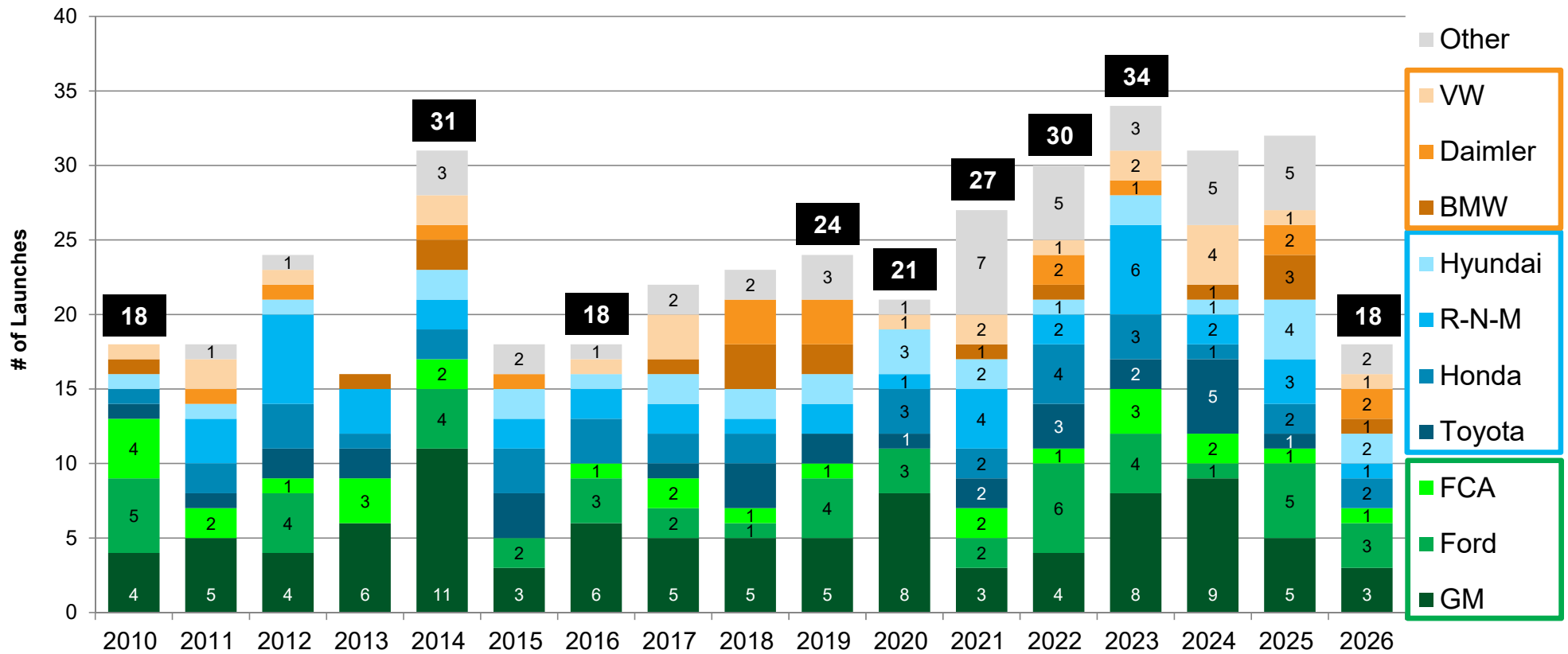


COVID Resets The Market

- Capacity utilization, risk mitigation and shifting priorities dominate
 - Incentives rise
 - Fleet volume unavailable short-term
 - Consolidation is possible
- OEMs favor well-capitalized & global suppliers in critical sectors
- Component localization (especially from China) to rise
- Export share declines & S/CUVs approach 50% share of production by 2024.

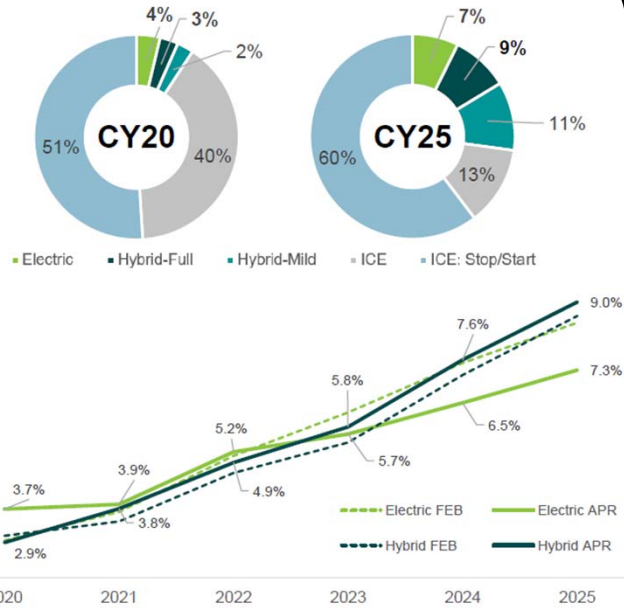
North America – Program Launch by OEM

OEMs delay several launches into 2021 – restage several launches over the mid-term



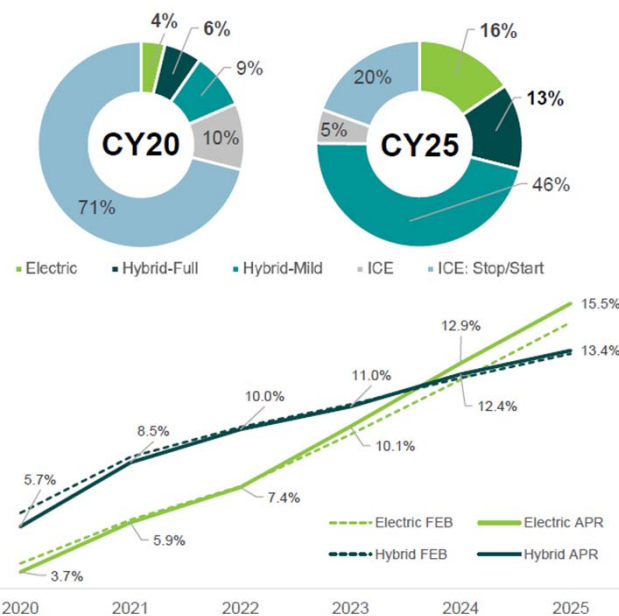
Electrified Propulsion in the POST-COVID Era

North America



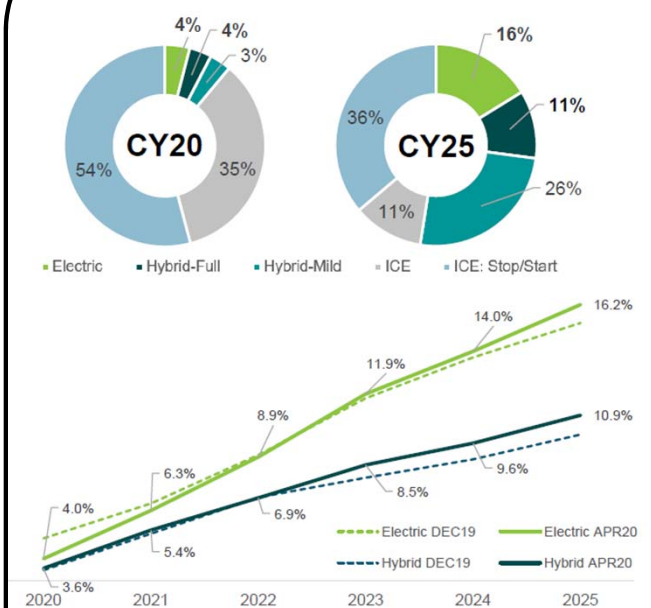
- New 'SAFE' emissions structure calls for a 1.5%/yr stringency rate vs. ~5% for 'CAFE'.
- Lower oil and affordability reduces BEV rate with a more positive HEV and PHEV forecast.

Europe



- Electrified propulsion forecast largely unchanged as little relief expected for CO₂ compliance
- Most electrified propulsion investment considered safe

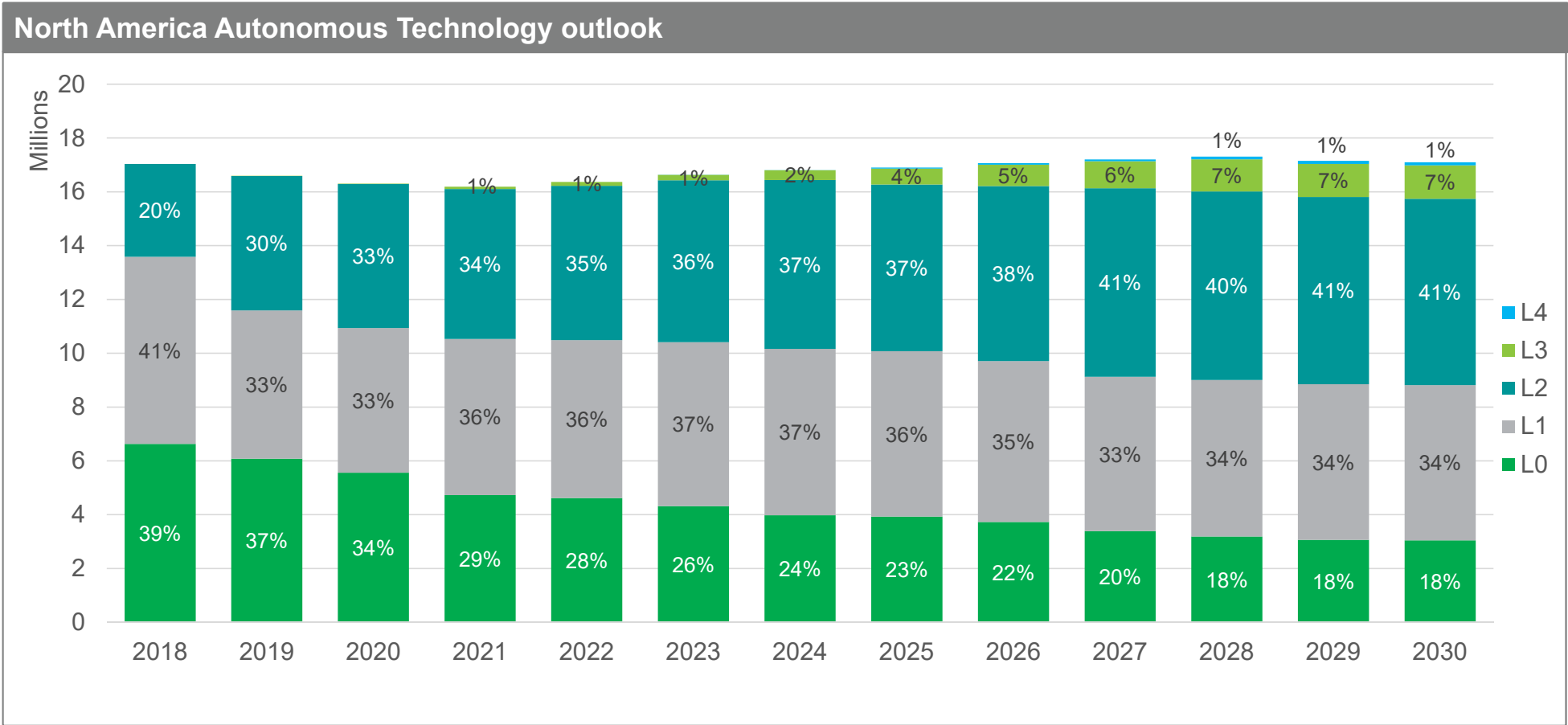
China



- CAAM may loose CAFC/NEV credit requirements and delay new emissions standards to 2021
- EV incentives may be extended to 2022

NA has higher penetration for Autonomous technology compared with global levels

North America Autonomous Sales Forecast



Summary



- The rebound from COVID will be slow and regionally even in this multi-speed world.
- Growth in electrified propulsion and ADAS will continue albeit at adjusted speeds driven by reduced capital.
- Already emerging as an issue pre-COVID, capacity utilization and risk mitigation is front and center.
- Number of launch opportunities is declining though content integration rises – propulsion, safety and ADAS.

Consolidation of OEMs and suppliers will accelerate

Thank You

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Structural Shifts

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