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working world

Mobility Quarterly

Analyst themes from
earnings calls

August 2020

The COVID-19 pandemic has emerged as one of the major threats to the automotive and transportation industries. Several mobility companies are in a dire situation as the crisis has exacerbated supply chain issues in an already complex ecosystem that is spread across geographies. On the other hand, customer behavior is witnessing a transformational shift due to drastic restrictions in movement. It has forced an unprecedented global experiment around online living, proving that economic activity is defined less by where it takes place and more by what can be achieved digitally. Long-term focus on digitalization, automation and analytics are indispensable now, to not only achieve success but even to remain viable.

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Mobility companies prepare to walk on an altered, technology-led course while dealing with ongoing pandemic crisis

Welcome to the *Mobility Quarterly*, a review of the top 10 themes discussed by leaders of 28 mobility sector companies, including passenger vehicle (PV), commercial vehicle (CV), airlines, logistics, automotive suppliers and retailers, during public earnings calls with analysts during July and August 2020. This update tracks the movement of these themes from quarter to quarter to provide a perspective on shifts in the sector landscape.

Themes that stood out include the following:

- **Operating costs:** moved up to No. 1 on the list. The pandemic has demonstrated how quickly exceptional circumstances can bring about profound changes. The crisis has necessitated widespread cost-restructuring programs, forcing companies to adopt digitalization and automation at a faster pace than they had planned for. Agile manufacturing and supply chains' agenda are also fast-tracked as companies prepare for a volatile demand environment.
- **Financial initiatives:** No. 3 on the list. Mobility companies are working on their capital management strategies to secure financial stability and prepare for the second wave of the pandemic, in case the situation worsens. Discretionary spending and capital expenditures are delayed or suspended, and companies are actively using credit and debt financing strategies to achieve a strong liquidity position.
- **Product and service innovation:** moved up to No. 4 on the list. Original equipment manufacturers (OEMs) are already struggling to support their internal combustion engines (ICE) legacy, businesses while simultaneously investing in the transition to full or partial electric vehicle (EV) drive trains, along with autonomous and connected technology. Their biggest challenge currently is deciding which version of the post-COVID-19 future to put their faith in.

Randy Miller

EY Global Advanced Manufacturing & Mobility Leader

Top 10 themes from quarterly earnings calls

2Q20			1Q20	
↑	1.	Operating costs	1.	Geographic developments
↓	2.	Geographic developments	2.	Capital management
↓	3.	Financial initiatives	3.	Manufacturing and supply chain management
↑	4.	Product and service innovation	4.	Talent issues and initiatives
↔	5.	Working capital and cash flow management	5.	Working capital and cash flow management
↑	6.	Evolution of mobility	6.	Restructuring initiatives
↑	7.	Customer connectivity	7.	Operating costs
New	8.	Developments in end markets	8.	Optimizing retail and distribution
New	9.	Inorganic growth (M&A, joint ventures/partnerships)	9.	Organic growth (products, services strategy and innovation)
↓	10.	Business reorganizing/restructuring	10.	Evolution of mobility

Key themes



1

Operating costs

Gains or losses related to operating costs, including raw materials, currency, energy and talent

- ▶ The pandemic has necessitated widespread austerity measures, including layoffs and furloughs. Companies are laser-focused on optimizing cost structure while preparing to lay the foundation for sustainable growth.
- ▶ Manufacturing companies are facing heightened costs as they set up plants for safe production, while operational efficiency has declined due to social distancing protocols.
- ▶ Logistics peers, in addition to cost reduction programs are also using technology to drive efficiency by increasing delivery density.
- ▶ The airline industry is likely to be smaller going forward due to a drastic decline in passenger occupancy; airlines are working to right-size all aspects of the organization to that effect.



COVID-19 has roiled a global automotive industry that was already facing short-term demand shocks and long-term disruption from the decline of internal combustion engines, the demand for ride-sharing and the push toward connectivity overall.

Kris Ringland, EY Global Advanced Manufacturing & Mobility Strategy and Transactions Leader



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Geographic developments

Market conditions by region

- ▶ Vehicle production declined steeply in North America and Europe, reflecting the shutdown during the month of April and the slow restart of operations during May. While retail demand has started to improve now, production remains volatile due to supply chain disruptions.
- ▶ Vehicle sales in China have steadily recovered and OEMs are now operating at near pre-COVID-19 levels; demand continues to be volatile due to the challenging economic environment.
- ▶ Logistics demand surged in Europe as they maintained essential services amid the pandemic.
- ▶ Growth in e-commerce fueled demand in the US while Asia Pacific outbound average daily volume grew substantially, fueled by a demand in personal protective equipment (PPE).



Total light-vehicle registrations are predicted to fall by 16% in 2020 and by 2025 will still be 4% lower than pre-COVID-19 expectations.

John Simlett, EY Global Future of Mobility Leader



3

Financial initiatives

Crisis response efforts around the increase in the use of credit facilities, suspending repurchase programs and decline in capex investments

- ▶ Automotive peers are utilizing prolonged credit facilities, increasing credit provisions, such as issuing new notes and commercial paper, for stronger financial flexibility to withstand and prepare for the second wave of the pandemic.
- ▶ Companies are also limiting their capital expenditures for the year and retaining balance sheet flexibility for any compelling transaction opportunities.
- ▶ Automotive retailers are using their cash to deleverage themselves and are suspending share buybacks, delaying unessential capex and dividends.
- ▶ Airline peers are raising additional liquidity through debt offerings, secured note transactions, stock issuances and the Coronavirus Aid, Relief, and Economic Security (CARES) Act Payroll Support Program.



4

Product and service innovation

Investment in new technologies, expansions or reductions of activity in key product lines and capacity adjustments

- ▶ PV and CV peers are on track to meet the new emission norms, supported by the growing portfolio of EVs.
- ▶ While a few peers delayed new launches, others used virtual modes to launch vehicles with a heavy inclination toward electrified and connected vehicles.
- ▶ Automakers are adopting platform consolidation to reduce vehicle complexity for ICEs as well as EVs. Electric engines will likely witness a higher reduction in complexity.
- ▶ Supplier peers are focusing on new product development in more profitable and growing segments, with a focus on electrified vehicles, 5G connectivity and software.



The costs of EVs are expected to decline rapidly, opening up a new landscape for US fleet operators, utilities and other players.

Thierry Mortier, EY Global Innovation Lead for Power & Utilities



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Working capital and cash flow management

Changes observed from the prior quarter and crisis response efforts

- ▶ Automotive peers are demonstrating discipline in working capital management and liquidity position while holding incremental inventory to protect the enterprise from risks of liquidity crunch and supplier disruption if industry conditions worsen.
- ▶ OEMs are aiming to normalize liabilities and effectively manage their receivables as the business is starting to stabilize.
- ▶ Airline peers are focused on reducing the average daily cash burn by trimming operating expenses. Beyond the fuel and volume-related savings led by capacity reductions, airlines are also deferring nonessential expenses.



6

Evolution of mobility

Growth of connected, autonomous, shared and electric (CASE) vehicles

- ▶ Connected mobility solutions to digitalize customer experience and improve resiliency is witnessing heightened attention from PV and CV peers.
- ▶ Automakers are assuring stakeholders that while investment in AV technology might have taken a back seat for the initial part of the year, it is expected to recover shortly.
- ▶ PV peers are continuing their electrification plans, aiming to keep pace with the emission norms and global sustainability goals.
- ▶ Supplier peers are expanding their electrification portfolio with onboard chargers, wiring and connection systems, and developing advanced driver-assistance systems (ADAS) – a sensor and safety solution to improve automated driving features.



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Customer connectivity

Initiatives to increase access to customer, improving customer experience, managing channels and dealer network

- ▶ Customer experience tops the priority for automakers, aiming to converge online and physical car buying experience to create an omnichannel experience for customers.
- ▶ OEMs are collaborating with dealers to implement new business models such as contactless sales, doorstep delivery of sanitized vehicles and spare parts delivery directly from the warehouses to help business continuity.
- ▶ Logistics peers are simplifying return processes with paperless returns and expanding retail convenience network. They are also improving the experience for small and medium businesses by reducing time in transit and by providing an end-to-end network.

New

8

Developments in end markets

Trends in key customer segments impacting demand for products and services

- ▶ The truck and bus markets were already in a cyclical downturn when the pandemic hit the global economy which further worsened the situation for the segment.
- ▶ For airlines, an uptick in passenger volume is driven mostly by domestic leisure travelers or essential flying only. Business travel has yet to witness a recovery.
- ▶ For logistics peers, the pandemic has accelerated e-commerce adoption while detrimentally affecting the business-to-business segment.

New

9

Inorganic growth

Advanced disruptive vehicle and core technologies, portfolio and retail expansion

- ▶ Mobility peers are considering bolt-on acquisitions as they are much less capital-intensive while providing new revenue streams that can be leveraged with the same overhead structure.
- ▶ PV and supplier peers are finalizing the strategic alliances to strengthen their capability in electric and self-driving vehicles.



10

Business reorganizing/restructuring

Operational streamlining, business restructuring and crisis response efforts

- ▶ PV and CV peers' focus on safety has extended to the supply chain and working directly with suppliers and logistics providers to minimize disruption.
- ▶ In a push to build resiliency during this crisis, major airlines are streamlining and simplifying their fleet structure, and many have decided to retire a large number of aircraft this year.
- ▶ Select mobility companies are launching a green recovery plan with a path toward zero net emissions by introducing a new corporate social responsibility (CSR) committee to fulfill this goal.



In the face of the disruption caused by COVID-19, agile, networked ecosystems are the key to supply chain resilience.

Glenn Steinberg, EY Global and EY Americas Supply Chain Leader

Companies included in the analysis

The identification of the top 10 themes are based solely on an examination of earnings calls held during July and August 2020.

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|---------------------------------|-------------------------|----------------------------|--------------------------------------|
| ▶ AB Volvo | ▶ Caterpillar Inc. | ▶ General Motors Company | ▶ Renault SA |
| ▶ American Airlines Group Inc. | ▶ Continental AG | ▶ Group 1 Automotive, Inc. | ▶ Tata Motors Limited |
| ▶ Aptiv PLC | ▶ Daimler AG | ▶ Honda Motor Co., Ltd. | ▶ The Goodyear Tire & Rubber Company |
| ▶ Asbury Automotive Group, Inc. | ▶ Delta Air Lines, Inc. | ▶ Inchcape plc | ▶ The Michelin Group |
| ▶ AutoNation, Inc. | ▶ Deutsche Post AG | ▶ Lear Corporation | ▶ United Airlines Holdings, Inc. |
| ▶ BMW AG | ▶ FedEx Corporation | ▶ Magna International Inc. | ▶ United Parcel Service, Inc. |
| ▶ Bridgestone Corporation | ▶ Ford Motor Company | ▶ Nissan Motor Co., Ltd. | ▶ Volkswagen AG |

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