AlixPartners

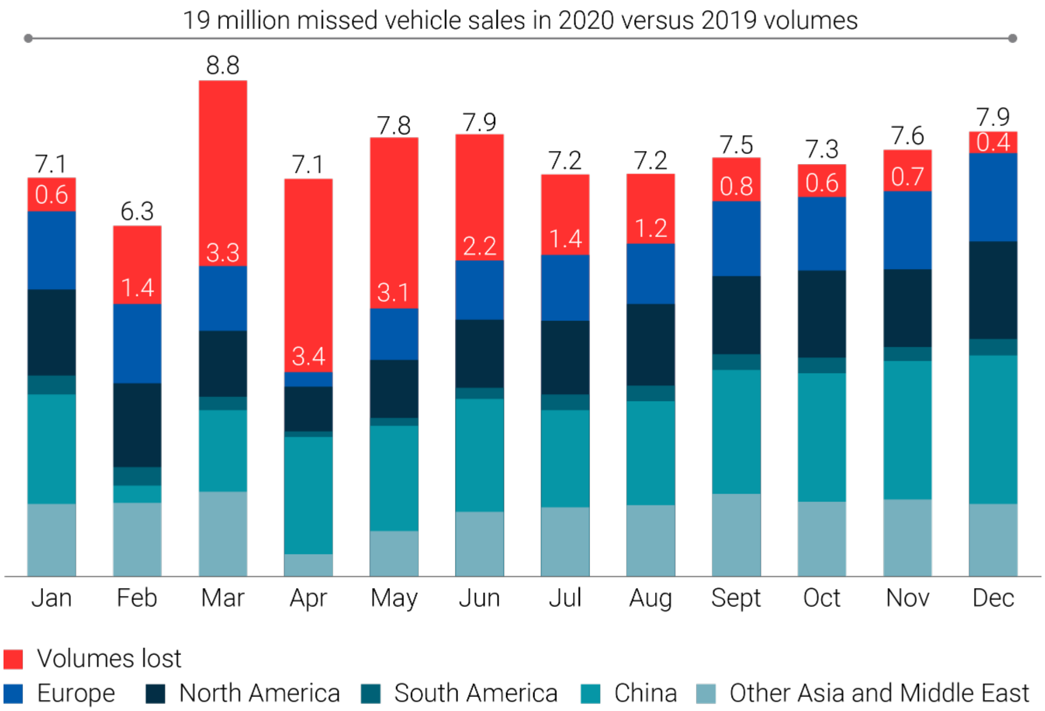
MASTERING UNCERTAINTY TO CROSS THE "PROFIT DESERT"

The AlixPartners Automotive Study Highlights

Coming during an already-softening global automotive market and a capital intensive transformation away from traditional vehicles and systems, our new AlixPartners Global Automotive Outlook explains the effects of the COVID-19 crisis. With lockdowns, lowered consumer confidence, and rising unemployment, the arrival of the pandemic presents the entire auto industry with severe revenue and cost challenges, along with some difficult capital-allocation choices.

In particular, the industry faces a volume drop of up to 19 million vehicles this year against 2019 (figure 1) and 44 million cumulative through 2022 against our previous sales forecast. We now anticipate that automaker sales globally will be 70.5 million vehicles this year with a mixed-speed recovery, where China recovers the fastest to 23 million units (given lockdowns and restarts took place there first), followed by the US at 13.6 million, and Europe (parts of which were among the hardest hit by COVID-19), at just 14.1 million. Overall, AlixPartners doesn't see global sales returning to their recent peak levels of 2017 until after 2025.

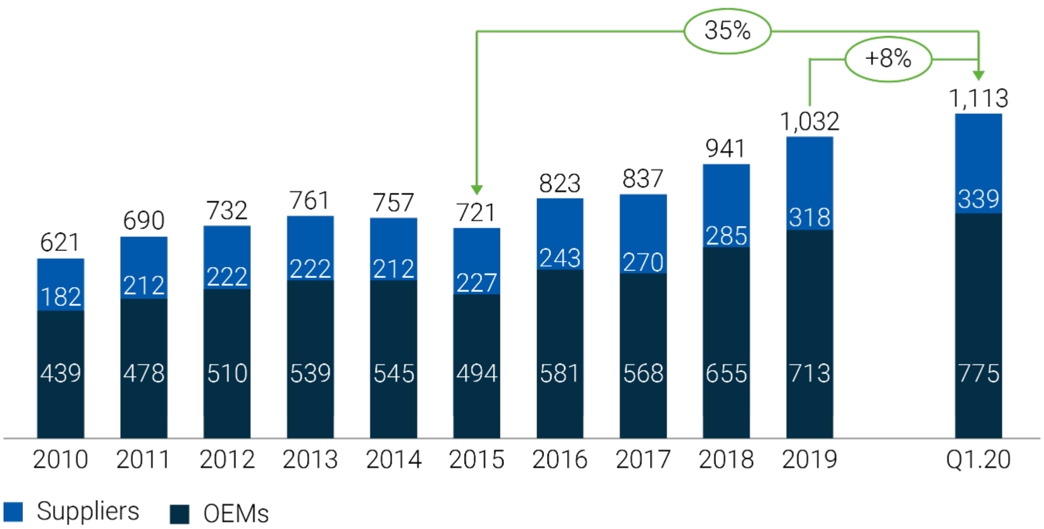
FIGURE 1: GLOBAL LIGHT VEHICLE SALES 2020 MONTHLY ACTUAL/FORECAST VERSUS 2019 ACTUALS (UNITS, MILLIONS)



Source: AlixPartners Sales Forecast 2020, IHS Markit (Light Vehicle Sales Forecast, May 2020), Press reports

On the supplier side of the industry, our analysis shows that in 2019, before this crisis, financially "strong" suppliers represented only 6 percent of that sector's revenues. In fact, we find that many suppliers and automakers entered this crisis in worse financial shape than they entered the Great Recession, with an increase in debt of 35% in the past four years, and 8% since December 2019 (figure 2). In addition, automakers and suppliers have raised $74.1 billion in extra long-term debt and revolver since the beginning of Q2 2020 which further increases the total industry debt load. To be prudent, given the uncertainty of the pandemic, companies should get their breakeven points to Great Recession levels to be in line with global industry sales of only about 65 million units, which is our volume scenario for a prolonged recession.

FIGURE 2: 2010 TO 2020 AUTOMAKER AND SUPPLIER (TOP 300) – DEBT ($ BILLION)



Q1-2020 Select Suppliers (185 with over 500 million annual revenue) which had published quarterly results at time of publication and LTM for earnings
Note: Excl. Debt of Financing Divisions for automakers (only core automotive business)
Source: S&P Capital IQ; AlixPartners analysis

As a result, automakers, suppliers, mobility players and all others connected to this industry need to be carefully selective with their capital-allocation decisions—closely and unsentimentally examining every program and spend area for their cash and profitability implications. At the same time, they should also take full advantage of any favorable government policies available to them.

Among our other findings:

- Prior to the Covid-19 crisis, industry investments in autonomous vehicles were scheduled to be $79 billion cumulatively from 2020 through 2025, but the crisis—on top of other setbacks—means that that spending rate will likely be pared back substantially.
- Around 40 percent ($13 billion) of disclosed automotive-related mergers-and-acquisitions activity last year was in what AlixPartners calls the "CASE" (connected, autonomous, shared-mobility, electric/electrified) domain, while CASE-related partnerships increased 32 percent (to 560), up from 423 in 2018.
- A "moment of truth" is arriving for the European auto industry and European regulators, in that AlixPartners finds a 21 percent gap exists between current European Union automotive targets for carbon-dioxide emissions and the industry's anticipated performance through year-end 2020—issues that might well require a political solution, or else companies will face fines of 10-14 billion euros in 2021 if nothing changes.

FOR A DEEPER DIVE INTO THESE TOPICS, CONTACT:

AMERICAS

Mark Wakefield

Dan Hearsch

Arun Kumar

John Loehr

Alexandre Marian

EMEA

Elmar Kades

Stefano Aversa

Andrew Bergbaum

Dario Duse

Jens Haas

Marcus Kleinfield

Alessandro Missaglia

Sean O'Flynn

Nick Parker

Laurent Petizon

ASIA

Stephen Dyer

Koichi Kawaguchi

John Park

Shiv Shivaraman

ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.