

Status of the Automotive Supplier Industry

Pulse Check Results – 3rd COVID-19 survey

June 30th 2020



McKinsey
& Company

Your McKinsey team for today's presentation



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The 3rd COVID-19 Pulse Check focuses on ...

Pulse Check – Automotive Supplier Response

- Impact of COVID-19 crisis on automotive suppliers
- Current challenges, structural measures, and remote work in the new normal

McKinsey Perspective – Scenarios and Consumer Insights

- Updated scenarios for economic development & expected impact on the light vehicle industry
- Consumer insights on purchase intent & mobility patterns
- Impact nugget – Raw material claw back opportunities



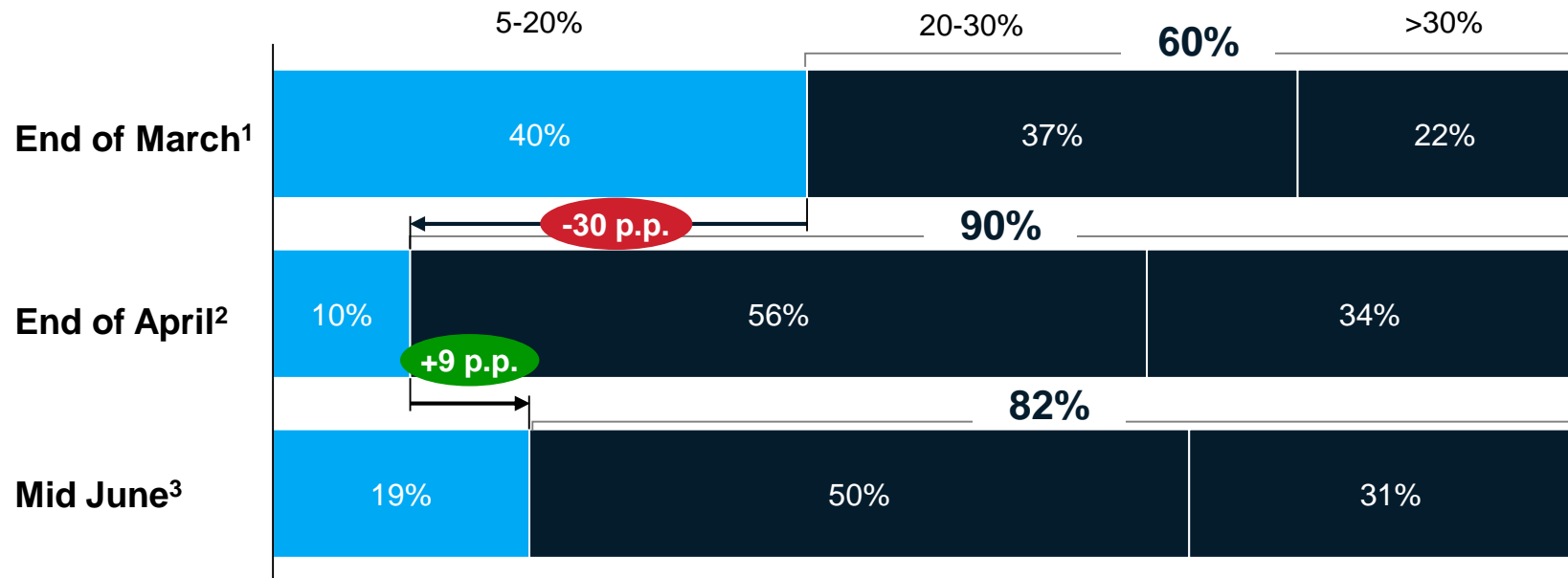
*3rd COVID-19 Pulse Check
June 2020*

First positive signs on the horizon as impact on 2020 improved slightly; however 80% still believe in revenue reductions of >20%

Survey conducted between June 15 – 23, 2020

What is the total estimated effect in 2020 on your company's revenue?

(% below plan)



Selected quotes from respondents

“ In April and May we saw sales levels at only 25%, in June we reached 40% - there might be hope for a recovery ”

“ First 2 weeks in June were better than expected, especially in the US ”



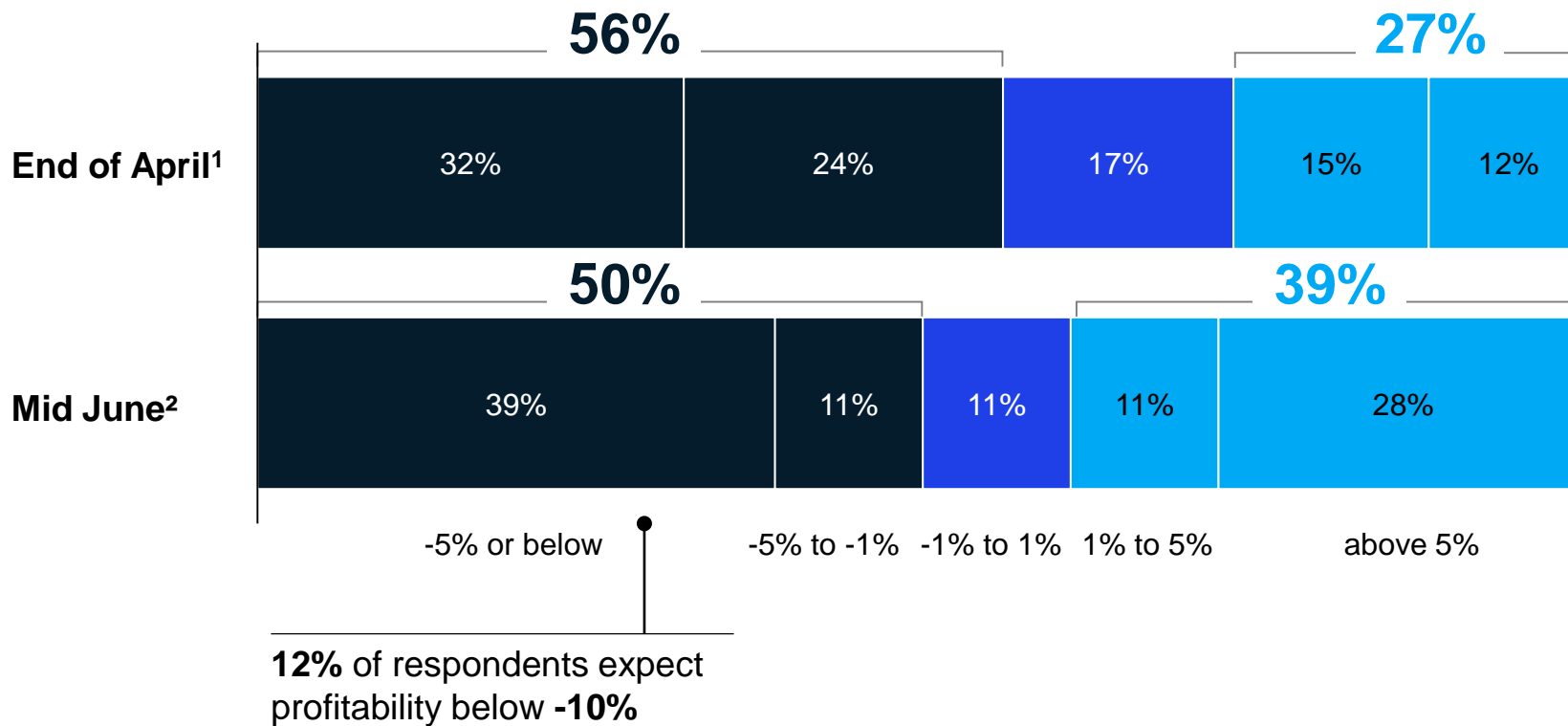
The outlook of respondents on revenue in 2020 improved slightly vs. April estimates, still significantly worse than March
82% of respondents now believe in revenue reductions of more than 20% vs. plan

1. March 20-24 2. April 27-30 3. June 15-23 Note: Displayed percent values without accounting for "N/A" answers. N=116 (March 20-24, 2020), N=79 (April 27-30, 2020), N=36 (June 15-23, 2020)

Although profitability estimates have slightly improved, only 39% of suppliers are confident to achieve a profit in 2020

Survey conducted between June 15 – 23, 2020

Which profitability do you expect for 2020 after accounting for this effect?



Selected quotes from respondents



We implemented a **strong cost-saving policy**



Liquidity and fixed cost management are biggest challenges

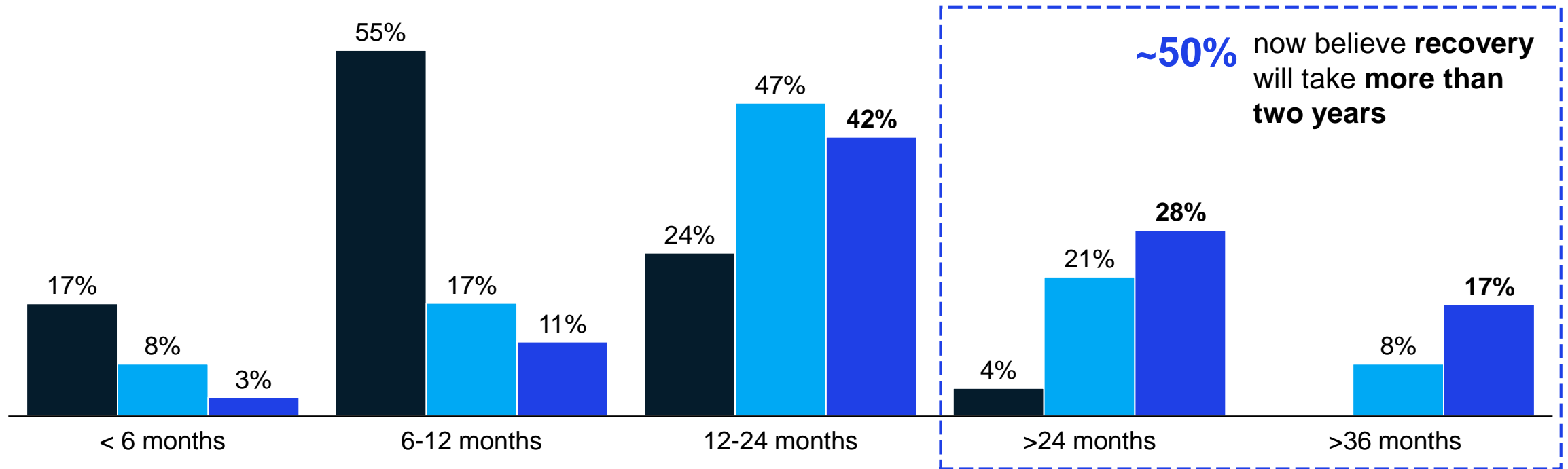
1. April 27-30 2. June 15-23 Note: Displayed percent values without accounting for "N/A" answers. N=79 (April 27-30, 2020), N=36 (June 15-23, 2020)

While short-term revenue and profit outlook slightly increased, suppliers became more skeptical on the time until a full recovery

Survey conducted between June 15 – 23, 2020

■ March 20-24 ■ April 27-30 ■ June 15-23

How long will it take until your company has fully recovered from the COVID-19 impact?



Almost **90% of respondents** believe **recovery will not be achieved within this year**

Despite initial signs of recovery, **half of respondents** believe in a **delay over 2 years**, with **one fifth** expecting even **more than 3 years until successful recovery**

Note: Displayed percent values without accounting for "N/A" answers. N=116 (March 20-24, 2020), N=79 (April 27-30, 2020), N=36 (June 15-23, 2020)

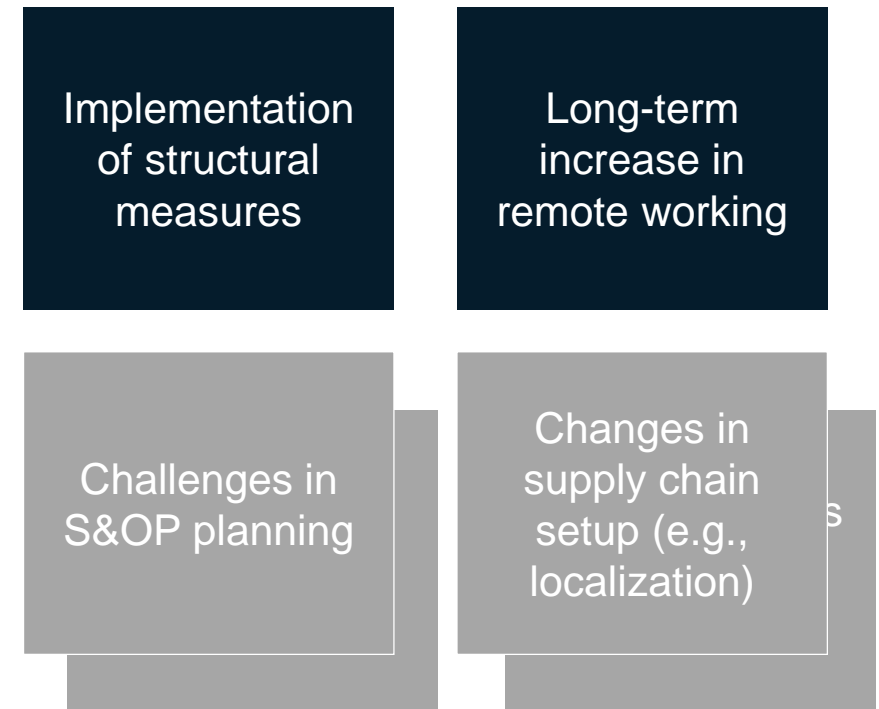
In addition to revenue and profitability impact, the Pulse Check survey focuses on the short- and mid/long term measures taken by suppliers

■ Focus for today

Short-term challenges and response measures



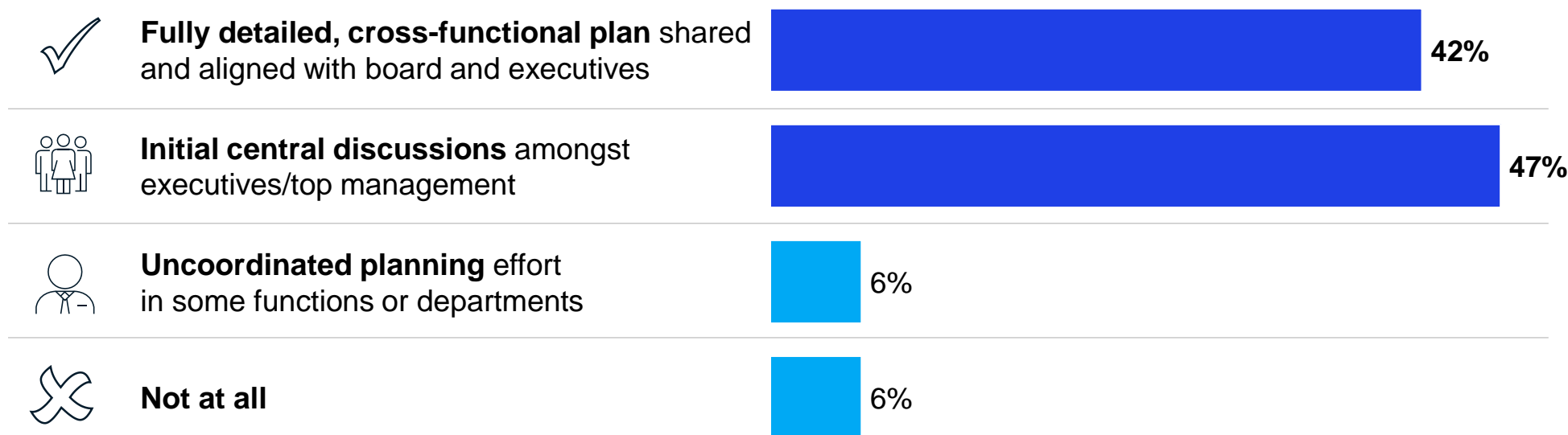
Mid-term/long-term measures



Large majority of suppliers are preparing for further waves of COVID-19 cases and related economic effects and restrictions

Survey conducted between June 15 – 23, 2020

How serious is your company planning for a potential further wave of COVID-19 and related restrictions this fall/winter?



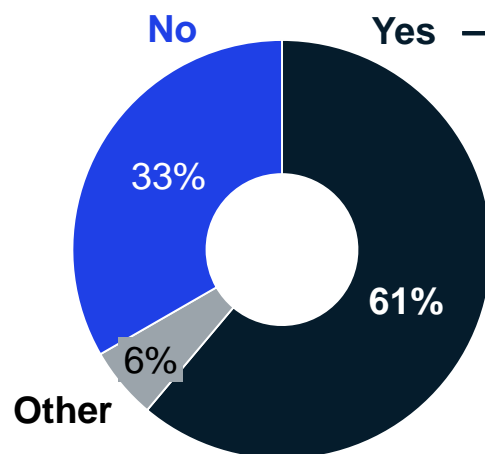
! Broad majority of respondents is already planning ahead for potential further waves
More than 40% already finalized their detailed cross-functional mitigation plan

Note: Displayed percent values without accounting for "N/A" answers. N=36 (June 15-23, 2020)

By now ~ 60% of respondents have started working level discussions with OEMs on COVID-induced damages

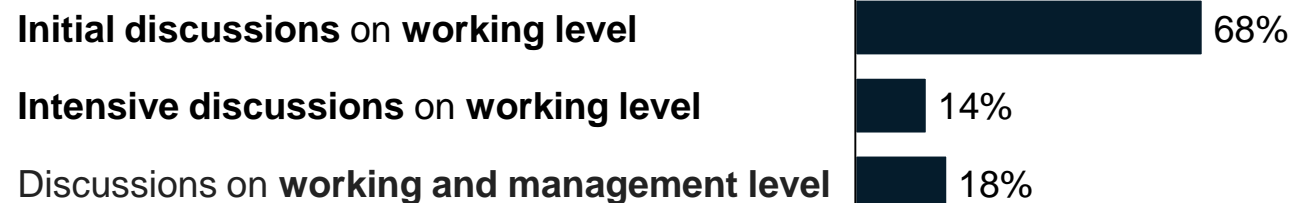
Survey conducted between June 15 – 23, 2020

Did your company already enter into discussions with OEM customers regarding occurred damages due to COVID-19?



On which level do these discussions take place?

% of yes



How did the discussions go until now?

% of yes



Majority of automotive suppliers are **in discussions with OEMs** regarding COVID-19-induced damages

Discussions mostly have just been initiated and take place on working level

Some respondents report **OEM requests for price reductions** instead

Note: Displayed percent values without accounting for "N/A" answers. N=36 (June 15-23, 2020)

SOURCE: McKinsey CLEPA Pulse Check Survey

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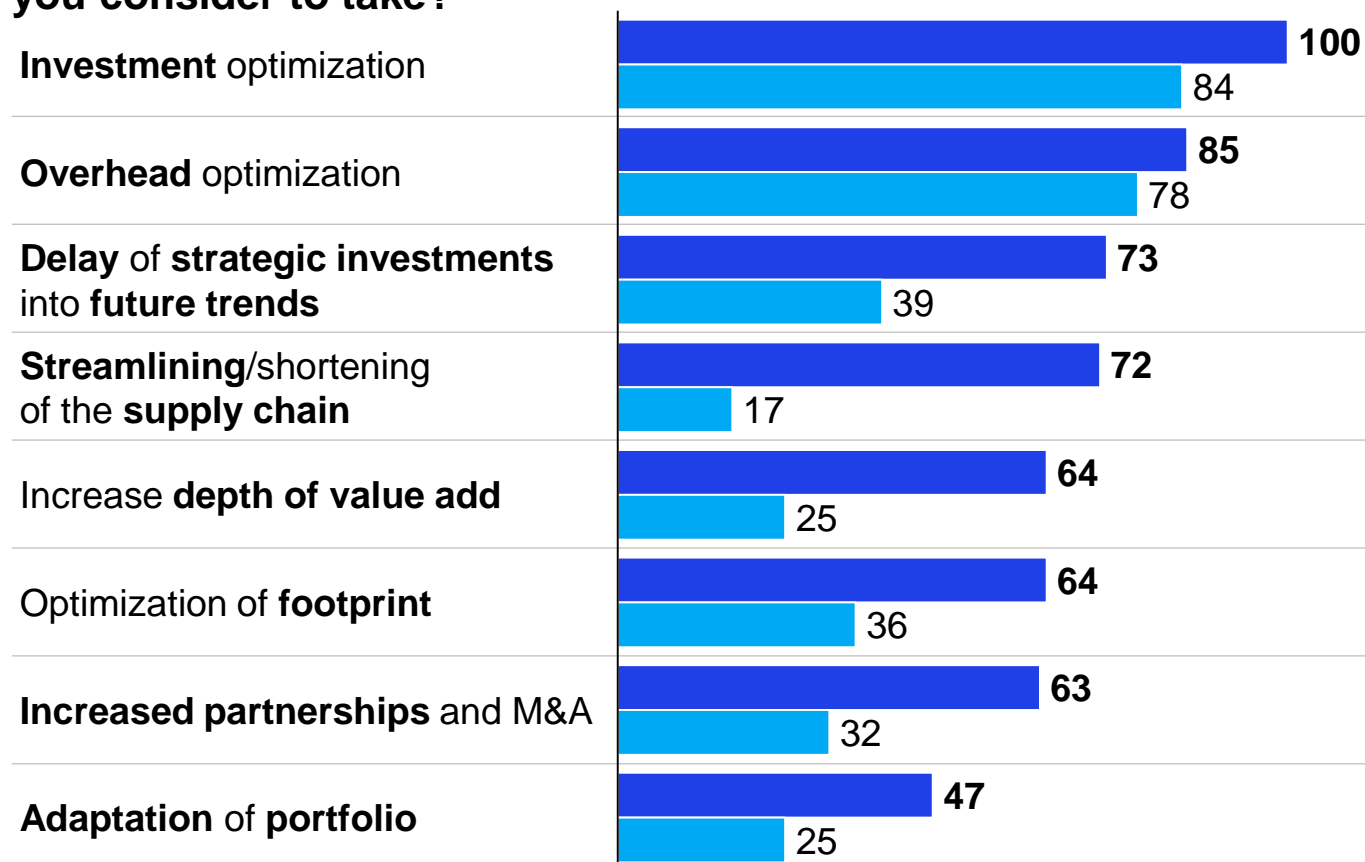
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Since the last survey, a significant increase in implementation of long-term structural measures in response to COVID-19 can be observed

Survey conducted between June 15 – 23, 2020

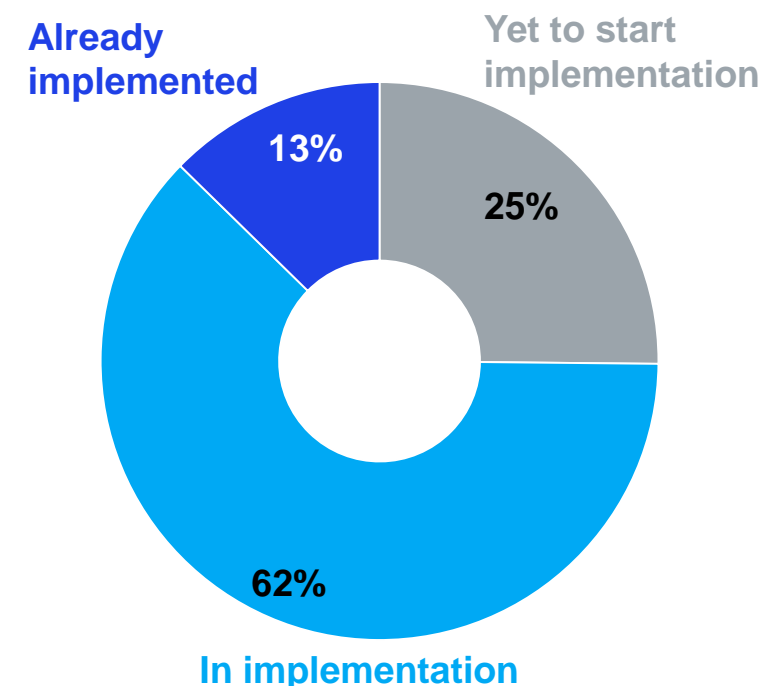
■ June 15-23 ■ April 27-30

Which long-term, structural measures in response to COVID-19 do you consider to take?



What progress did you already make?

Ø status of decided measures

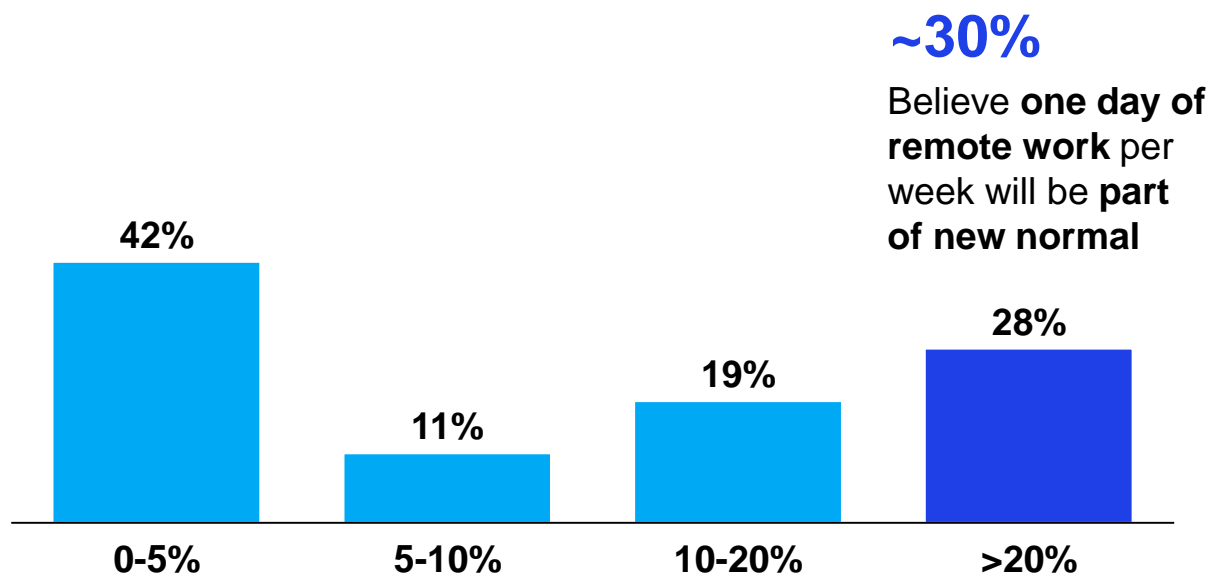


Note: Displayed percent values without accounting for "N/A" answers. N=36 (June 15-23, 2020)

Overall, the industry remains unsure about the future share of remote work...

Survey conducted between June 15 – 23, 2020

Which part ¹ of your workforce will be allowed to work remotely in the future?



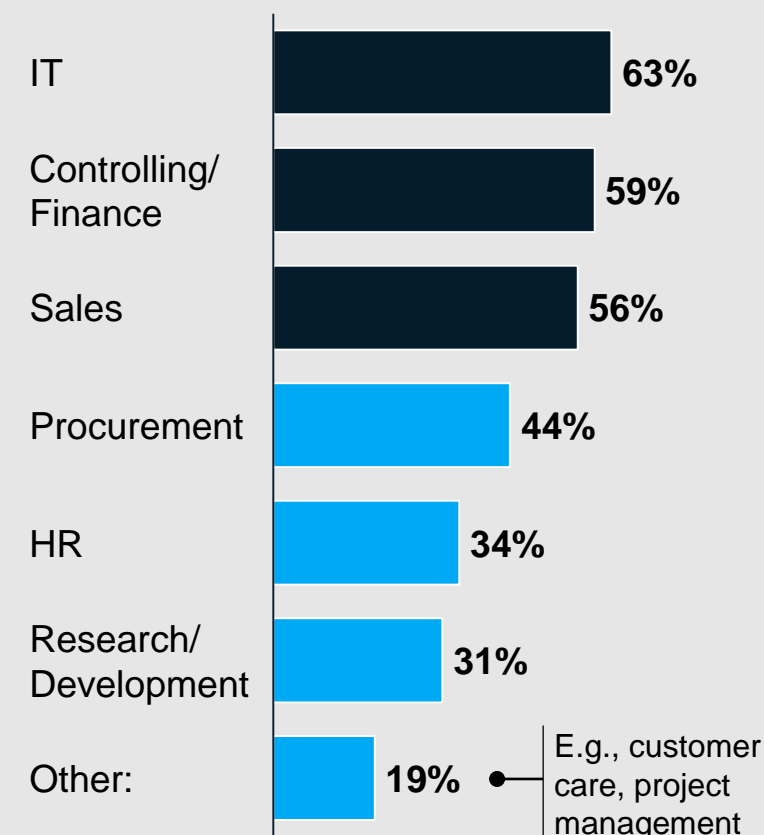
! Industry generally remains conservative regarding remote work – however already **30% expect that one day of remote work** per week will be possible

¹ Share of workforce that is able to work remote (and is/was working remotely during crisis)
Note: Displayed percent values without accounting for "N/A" answers. N=36 (June 15-23, 2020)

SOURCE: McKinsey CLEPA Pulse Check Survey, Gartner

...and will vary greatly by function

Which functions do you mainly expect to continue to work remote?



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Executives have wide-ranging expectations of global outcomes

“Thinking globally, please rank the following scenarios in order of how likely you think they are to occur over the course of the next year”; % of total European respondents¹



Virus spread and public health response

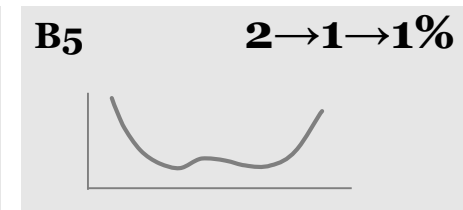
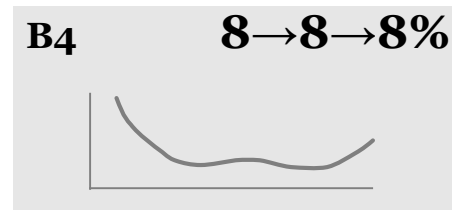
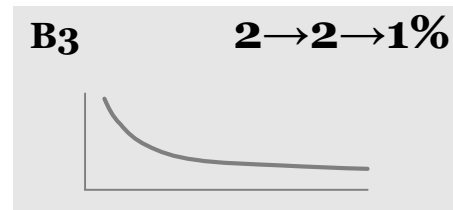
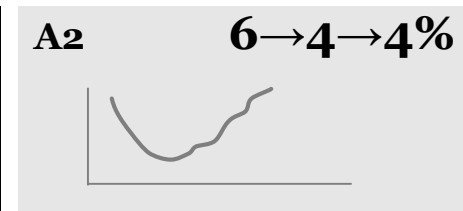
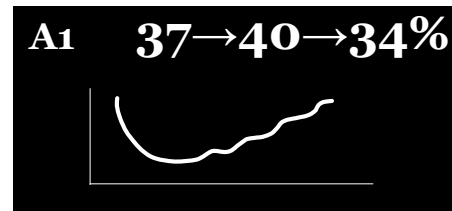
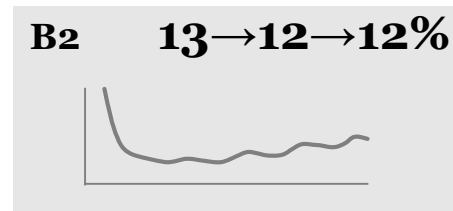
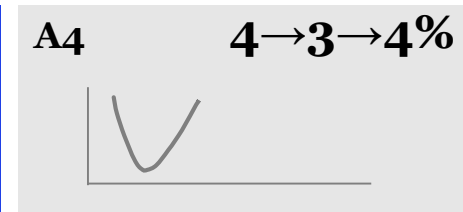
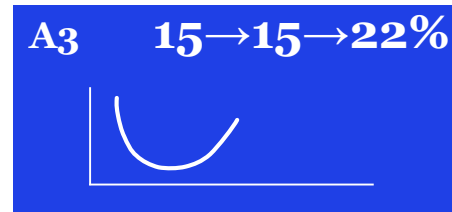
Rapid and effective control of virus spread

Effective response, but (regional) virus resurgence

Broad failure of public health interventions

Europe

April → May → June surveys



Ineffective interventions

Partially effective interventions

Highly effective interventions

Knock-on effects and economic policy response

1. Monthly surveys: April 2–April 10, 2020, N=2,079, 769 in Europe; May 4–May 8, 2020, N=2,452, 901 in Europe; June 1–5, N=2,174, 755 in Europe

A3-Scenario assumes 20% sales volume loss under risk in key automotive markets in 2020

Light vehicle sales volume 2020, in mn units

A3

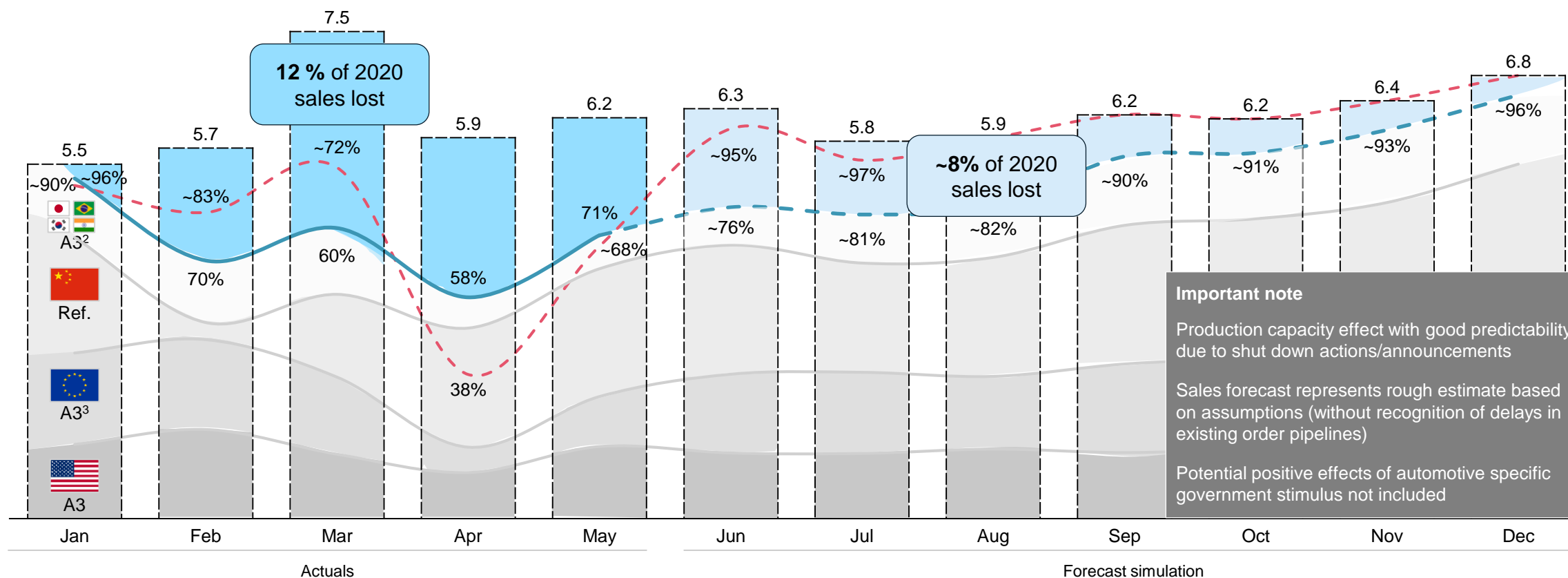


Preliminary modeling – one possible scenario

As of June 08

— Currently announced supply planning¹ — Sales forecast incl. COVID effect
— Sales actuals □ Sales forecast before COVID

Selected geographies cover 85% of global automotive sales



1. Based on publicly available information on OEM plant closure plus anticipation of production losses during ramp-up— adaption of production to demand not considered here (esp. catch-up of lost production volumes)

2. Japan, South Korea, Brazil Actual, India based on forecast simulation 3. Based on ~85% of volumes

Source: IHS; MarkLines; CAAM; Monthly volume forecasts based on 2019 actuals, adjustment factor applied to represent Chinese New Year Holiday effect; expert interviews

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A3-Scenario shows up to 25-30% sales volume at risk in European automotive market in 2020 vs total

European light vehicle sales volume 2020, in mn units

A3

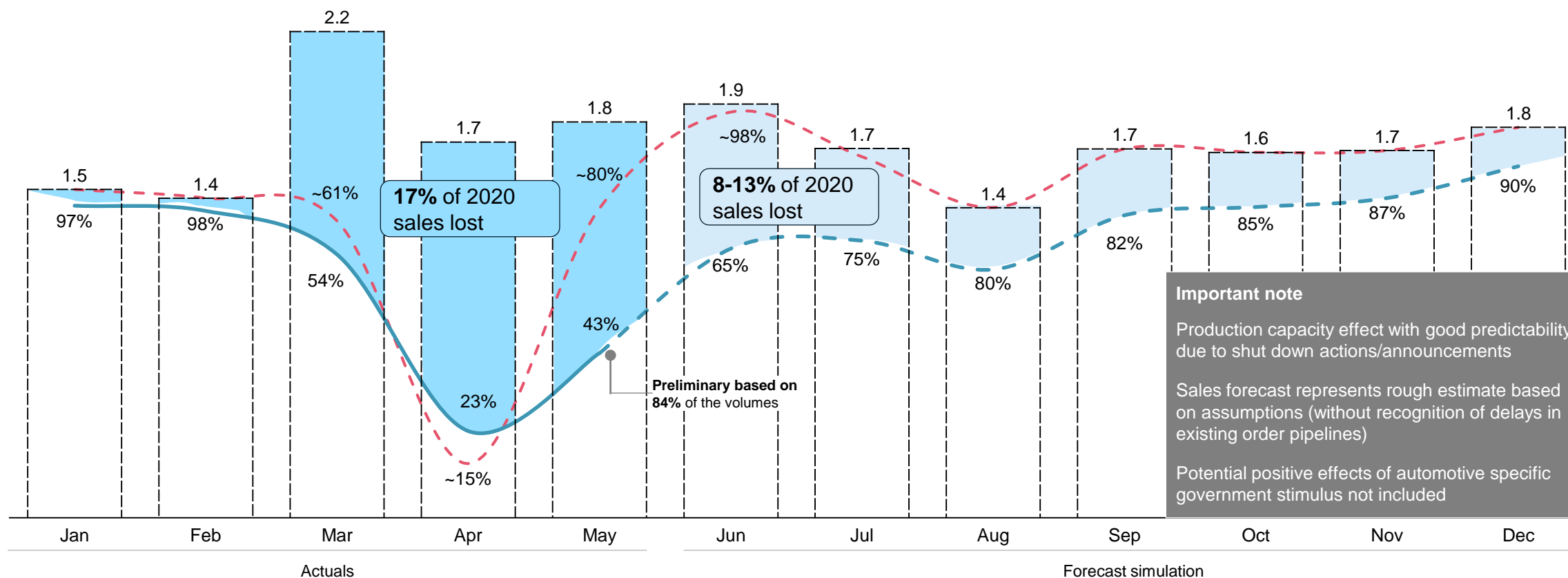


Preliminary modeling – one possible scenario

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In total: 5.5-6 mn sales units lost (25-30% of 2020 sales)



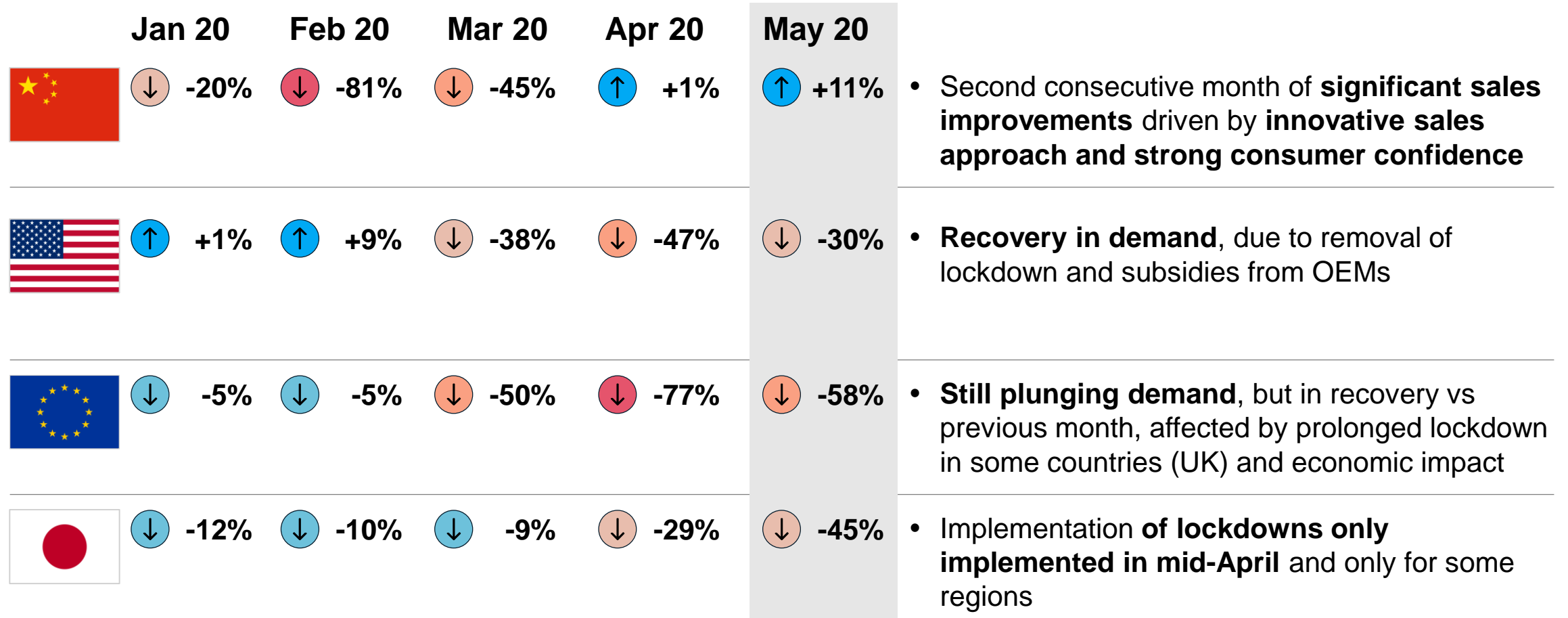
1. Based on publicly available information on OEM plant closure plus anticipation of production losses during ramp-up— adaption of production to demand not considered here (esp. catch-up of lost production volumes)

Europe/US still strongly affected but in recovery with -58% and -30% respectively; China fully recovered and growing +11%

2020 light vehicles sales growth rate per month (year on year)

As of June 17

■ Worse than -60%
 ■ -60% to -40%
 ■ -40% to -20%
 ■ -20% to 0%
 ■ Better than 0%



Note: Europe based on 84% of volumes

Source: Marklines Global Vehicles Sales Data (April 2020)

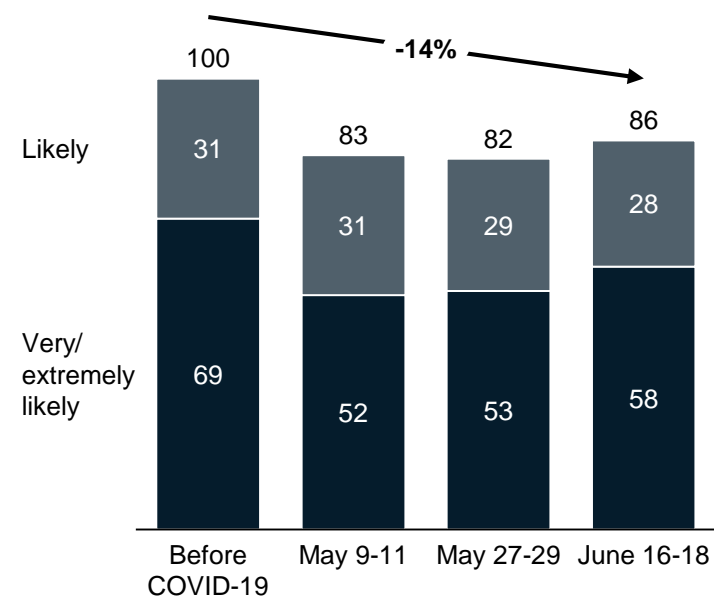
Consumer's car purchase intent and mobility below pre-COVID-19 levels but recovering



Car buying

New car purchase intent^{1,2}

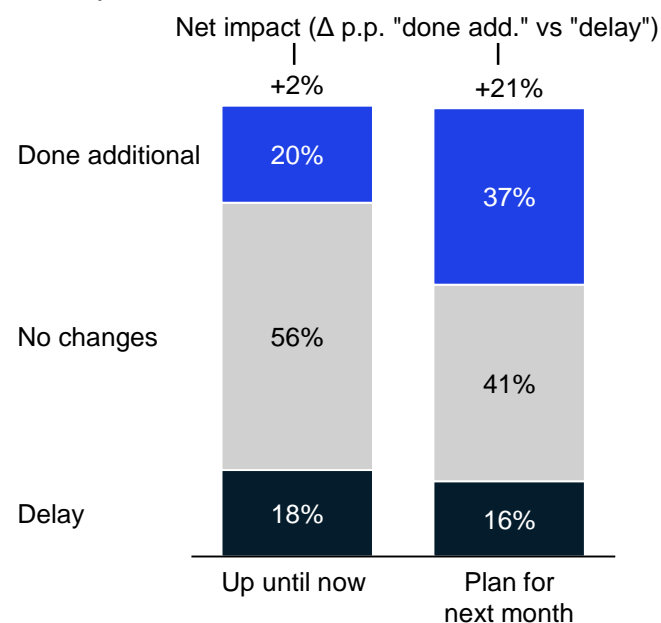
Percent of respondents



Aftermarket

Changes in maintenance and repair since beginning of COVID-19³

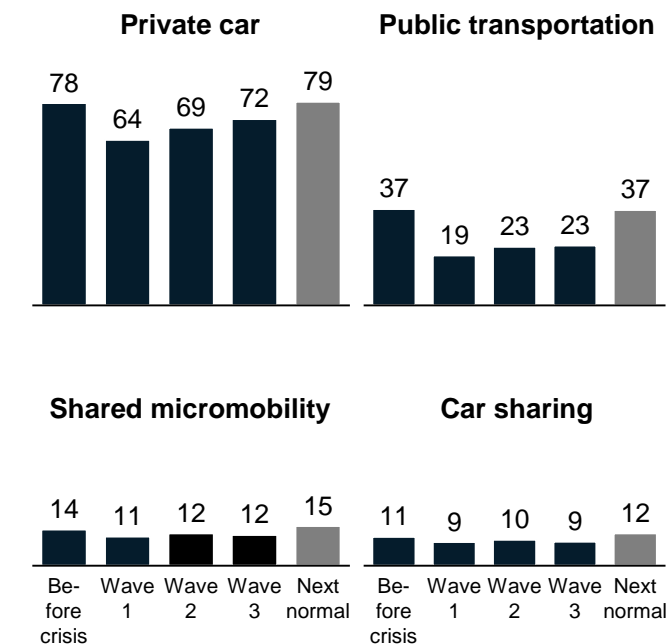
% of respondents



Mobility

Change mobility mode use

% of respondents using mode ≥ once/week



1.Q: Before the COVID-19 / COVID-19 crisis started, how likely were you to buy a new car?

2.Q: During or after the COVID-19 / COVID-19 crisis, how likely will you be to buy a new car?

3.Q: What type of maintenance, repair and improvement work have you delayed or done additionally?

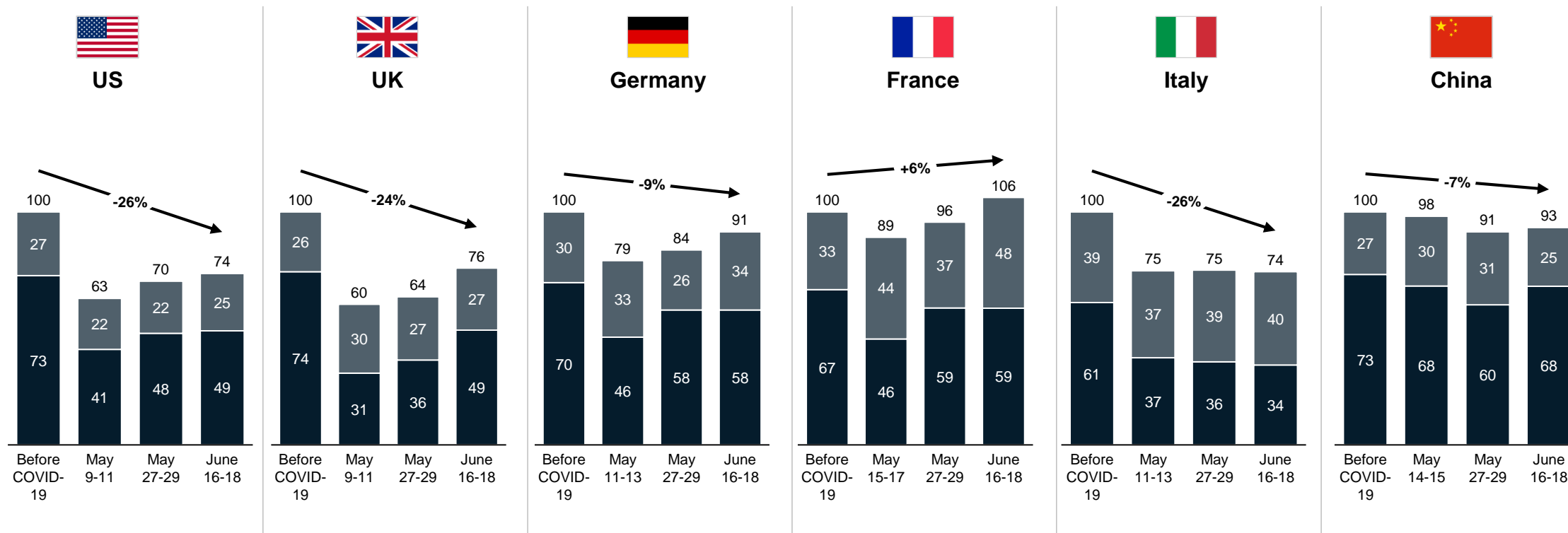
Sampled to match gen pop 18+ years within markets; individual markets weighted based on 2019 car market size, figures may not sum to 100% because of rounding

New car purchase intent ~-25% vs. pre-COVID-19 in US, UK, IT; markets except IT recovering; CN stable close to pre-COVID-19

■ Likely ■ Very/extremely likely → Change in %

Purchase intent new cars vs. pre-COVID-19 level ^{1,2}

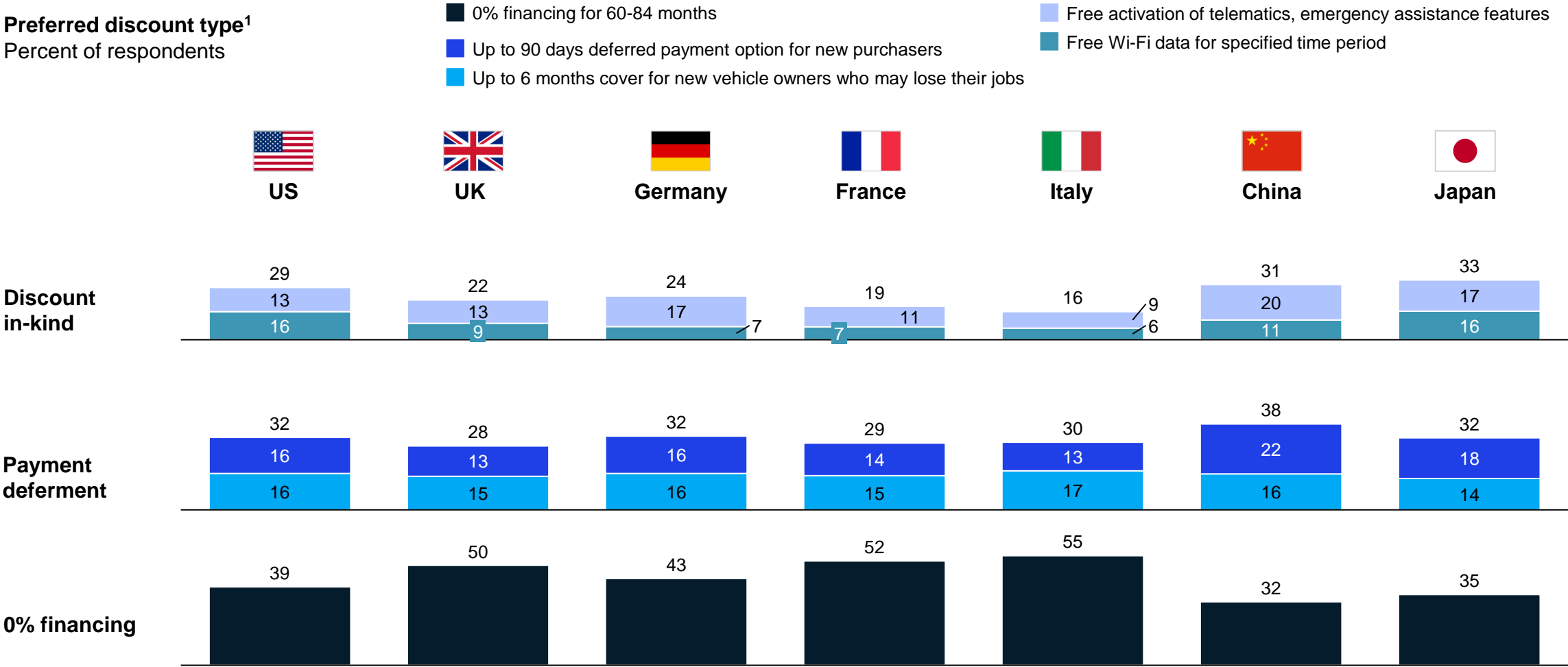
Percent



1. Q: BEFORE the COVID-19 crisis started, how likely were you to purchase or lease a new or used vehicle within the next 12 months?

2. Q: Given TODAY'S situation, how likely are you to purchase or lease a new or used vehicle within the next 12 months?

Aside from cash discount, 0% financing is consumers' preferred discount type

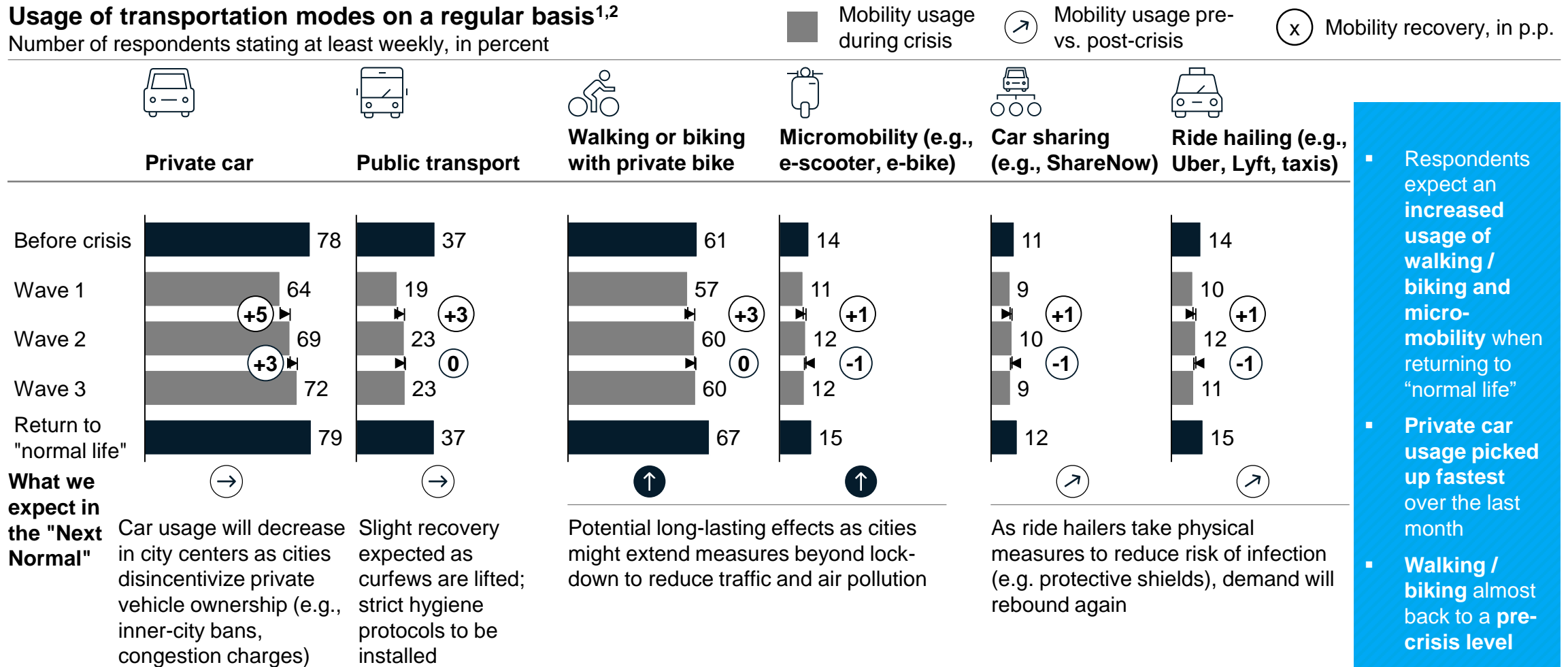


1. Q: Which of the following incentive types would make you most likely to purchase/lease a vehicle in the next 1-2 months aside from cash?

Walking / biking and micromobility potentially becoming more popular in the modal mix of the "next normal"

Usage of transportation modes on a regular basis^{1,2}

Number of respondents stating at least weekly, in percent



- Respondents expect an **increased usage of walking / biking and micro-mobility** when returning to "normal life"
- **Private car usage picked up fastest** over the last month
- **Walking / biking almost back to a pre-crisis level**

1 Q: Before/today/when you return to "next normal", how often did/do you/do you expect to use the following modes of transportation?

2. Once or more than once per week, aggregated results from US, UK, Germany, Italy, France, China and Japan

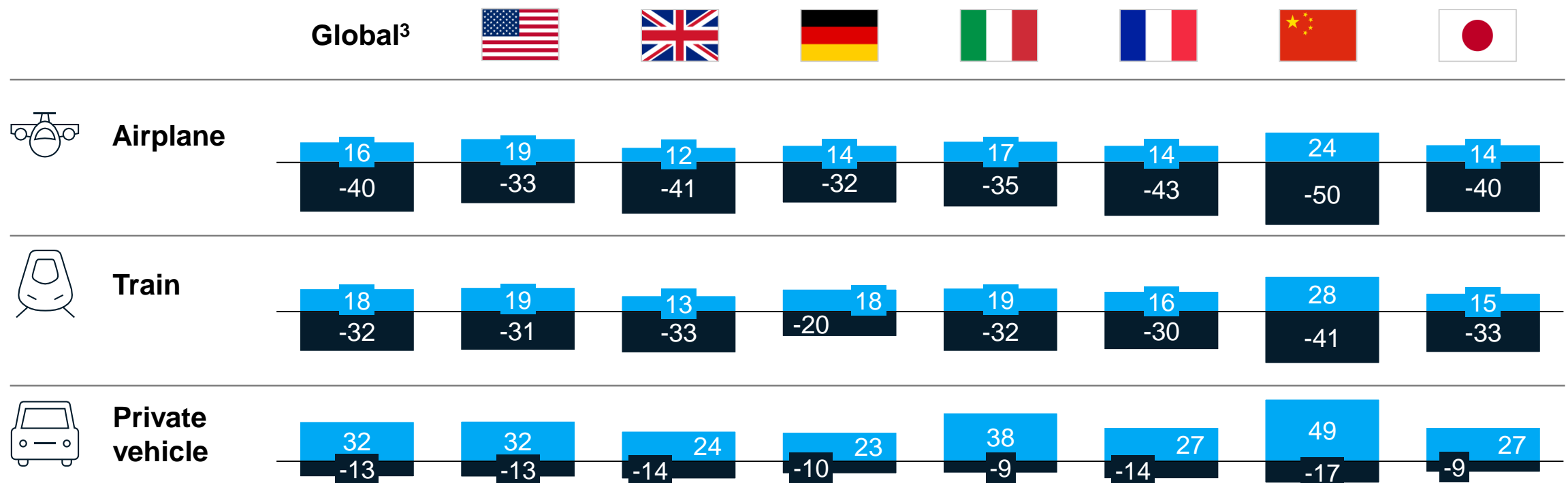
Across markets, consumers expect to shift from airplanes and trains for intercity travelling to an increased use of private vehicles

Results of wave 1 (May 9-18), wave 2 (May 27-29), and wave 3 (June 16-18)

■ Increased usage ■ Decreased usage

Change of mode for intercity travelling when returning to "next normal" vs. habits before COVID-19 outbreak¹

Number of respondents², in percent



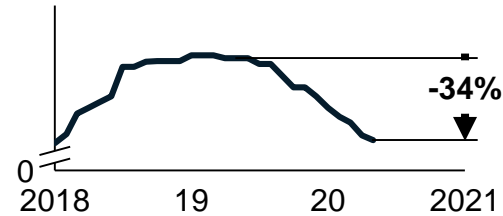
¹ Q: After you return to next normal, how do you think travelling between cities will change compared to before the COVID-19 outbreak?

² Consumers that have not used this mode of transportation before the COVID-19 outbreak excluded of scope of country

Significant raw material opportunity for automotive suppliers, given price drop in polymers and metals

1 Prices of major raw materials in automotive parts dropped

Polyamide 66, \$ per metric ton



12 month price change

| | |
|----------------|------|
| Polypropylene: | -20% |
| Aluminum: | -10% |
| Steel: | -10% |

Influencing factors

- 1.) Oil and energy price drops
- 2.) Decline in manufacturing

2 Even advanced procurement organizations do not fully capture the raw material opportunity

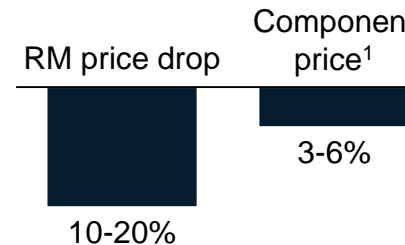
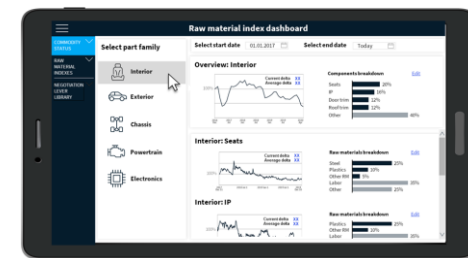
Share of spend directly linked to index or RM program



of raw material part to index relationships of automotive player:

>100.000

3 Systematic scan for opportunities shows high impact



Core tools:

- 1.) Digital input cost monitoring
- 2.) Raw material cleansheets
- 3.) Indexation scan

1. Assess 30% share of RM cost of 30%

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