

Status of the Automotive Supplier Industry

Pulse Check Results – Fall 2020 survey

October 14th 2020



McKinsey
& Company

Your team for this CLEPA McKinsey Pulse Check Webinar



Dr. Andreas Cornet
Senior Partner

Global leader of McKinsey's automotive supplier sector

25+ years of experience within the automotive industry

Andreas_Cornet@mckinsey.com



Dr. Dirk Breitschwerdt
Senior Partner

Leader of McKinsey's automotive supplier sector in EMEA

15+ years of automotive experience, focusing on automotive suppliers

Dirk_Breitschwerdt@mckinsey.com



Dr. Lukas Michor
Partner

Leader of McKinsey's automotive supplier sector in EMEA

10+ years of experience, and supported 15+ automotive suppliers

Lukas_Michor@mckinsey.com



Tom Kolaja
Partner

Leader of McKinsey's transformation practice in EMEA

30 years of transformation and restructuring experience

Frequently takes interim C-Suite roles

Tom_Kolaja@mckinsey.com



Anders Suneson
Associate Partner

Leader in McKinsey's sustainability practice with a focus on automotive and advanced industries

8 years experience in serving automotive industry

Anders_Suneson@mckinsey.com

This CLEPA Pulse Check focuses on ...

Pulse Check – Automotive Supplier Industry

- Status of the automotive supplier industry
- Success factors in navigating a shifting landscape and market developments

McKinsey Perspective – Potential in Decarbonization and Successful Transformations

- Sustainability and decarbonization potential
 - Successful transformations in a challenging market environment
-



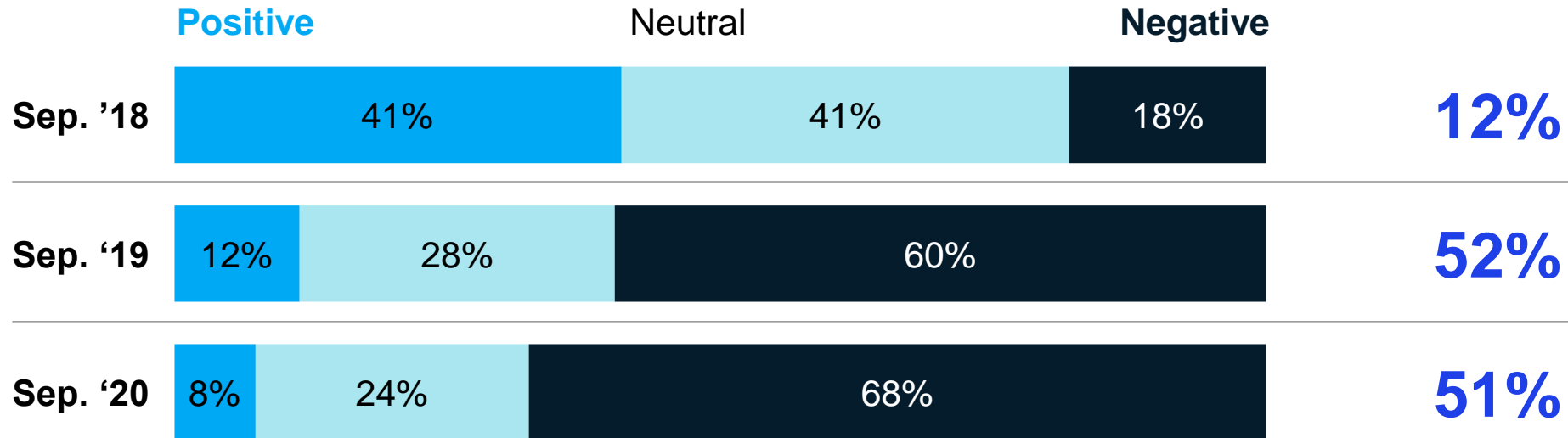
*CLEPA Pulse Check
October 2020*

Majority of suppliers with negative outlook on the automotive industry

Survey conducted between September 14th – October 4th, 2020

What is your general outlook for the automotive supplier industry?

Share of suppliers expecting decreasing revenues in the next 12 months¹



! Overall sentiment slightly worse compared with pre-corona levels of September 2019
50% of suppliers expect a further decrease in revenue for the next 12 months despite poor 2020

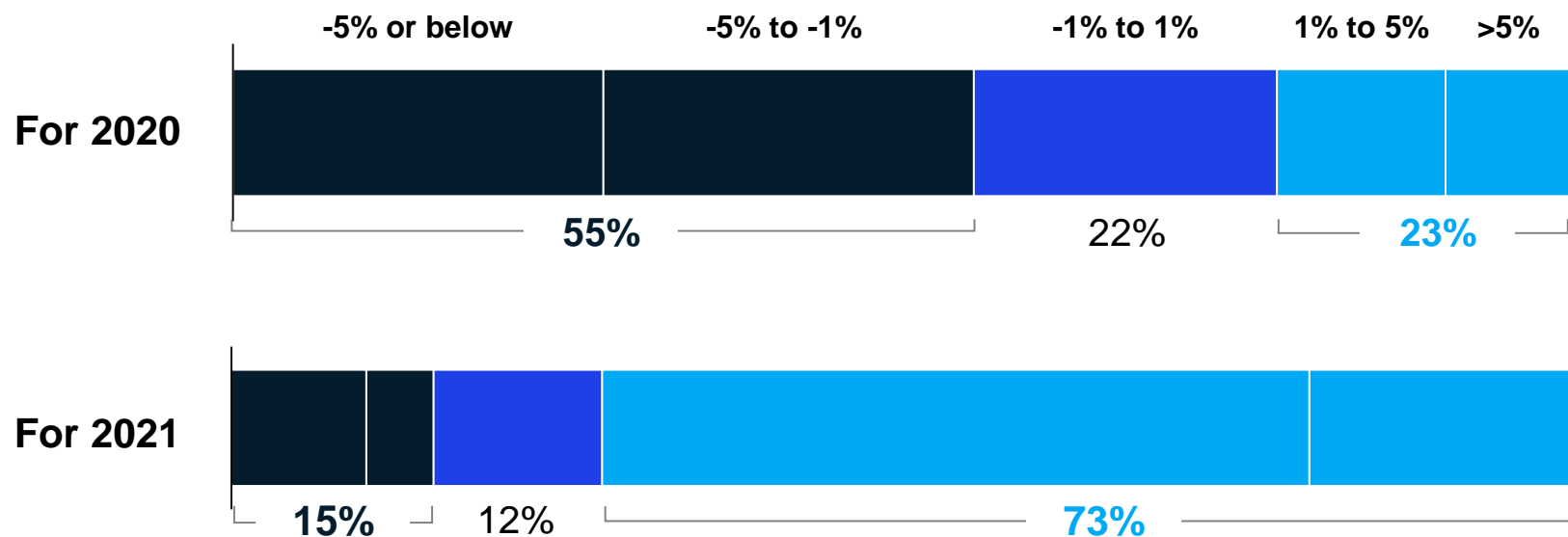
Note: Displayed percent values without accounting for "N/A" answers. N=40 (September 14th – October 4th, 2020)

¹ compared to last 12 months

However, majority of suppliers are confident to regain profitability in 2021

Survey conducted between September 14th – October 4th, 2020

Which profitability do you expect?



Selected quotes from respondents

“**“Lock-down weeks” are lost (top and bottom line effect) and irrecoverable. Taken measures will have only full effect in 2021.**”

“**Some costs have been slashed so, our cost base is on a good level. It’s at a point where we can easily add more sales and still be able to produce on time.**”

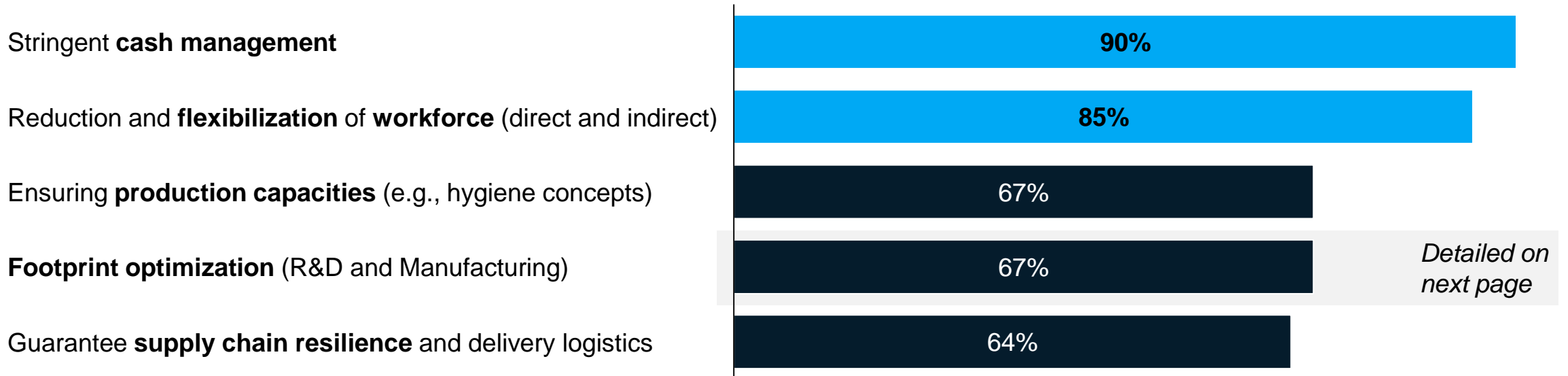
! **2020, only 23% of suppliers expect to achieve a clear positive result**
However, for 2021 73% are confident to regain profitability

Note: Displayed percent values without accounting for "N/A" answers. N=40 (September 14th – October 4th, 2020)

Short term success factors: Stringent cash management and flexibilization of workforce are key for all respondents

Survey conducted between September 14th – October 4th, 2020

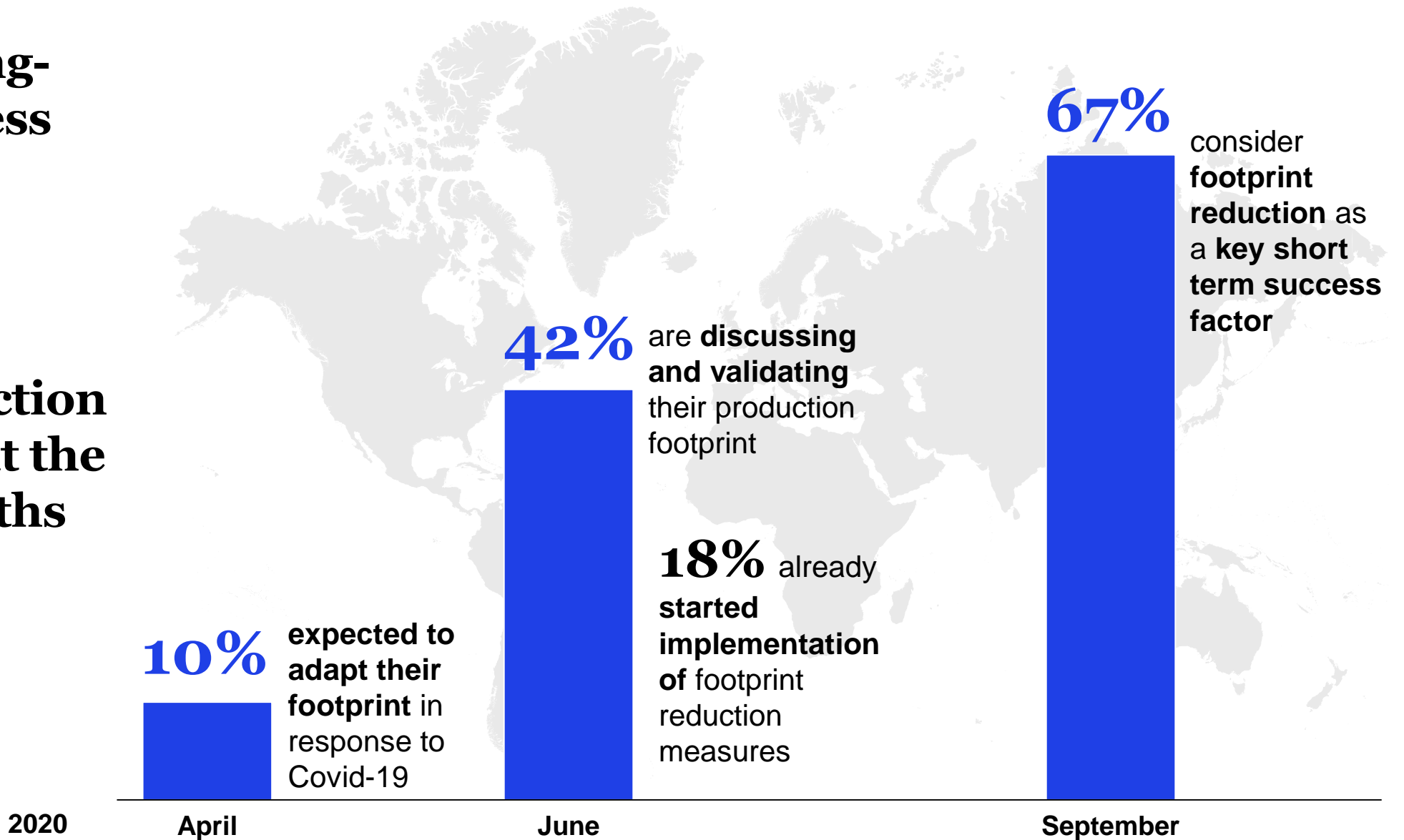
Short-term success factors: Which of the following levers are critical short-term success factors going forward?¹



! Neither indirect cost optimization (e.g., real estate, energy) nor material cost reductions are top of mind of respondents

¹ % of respondents selecting lever as "key success factor" (5,6,7)
 Note: Displayed percent values without accounting for "N/A" answers. N=40 (September 14th – October 4th, 2020)

Mid- to long-term success factors: Footprint reduction measures gained traction throughout the last 6 months

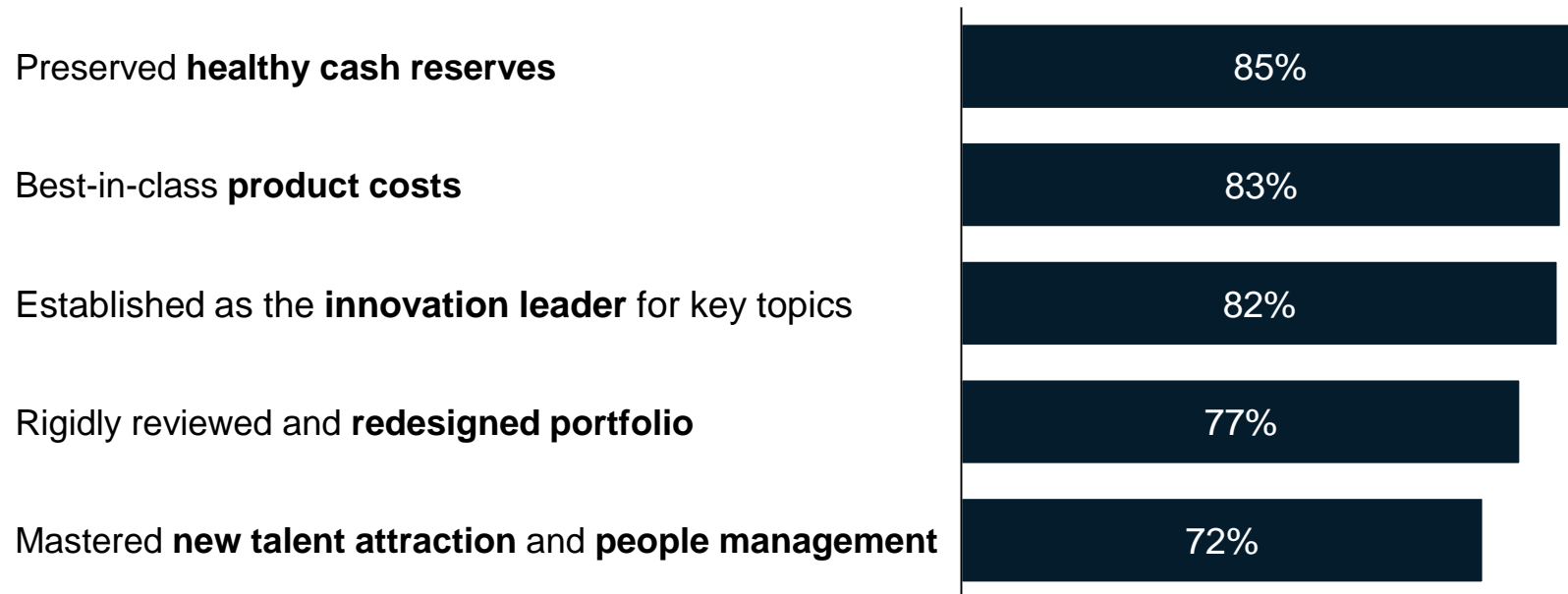


Note: Displayed percent values without accounting for "N/A" answers, N=79 (April 27-30, 2020), N=36 (June 15-23, 2020), N=40 (September 14th – October 4th, 2020)

Mid-/long-term success factors: Cash reserves and cost-leadership will continue to play major role

Survey conducted between September 14th – October 4th, 2020

Which of the following characteristics best describe high-performing suppliers that are more likely to succeed in the mid- to long-term?¹



Selected quotes from respondents

- “ ” We enforce a **strict budget control**, and very **proactive cash flow management**
- “ ” We have a **cash flow issue**, are reviewing our spending and restructuring
- “ ” There is a **high pressure on finance due to high investment needed** for future projects

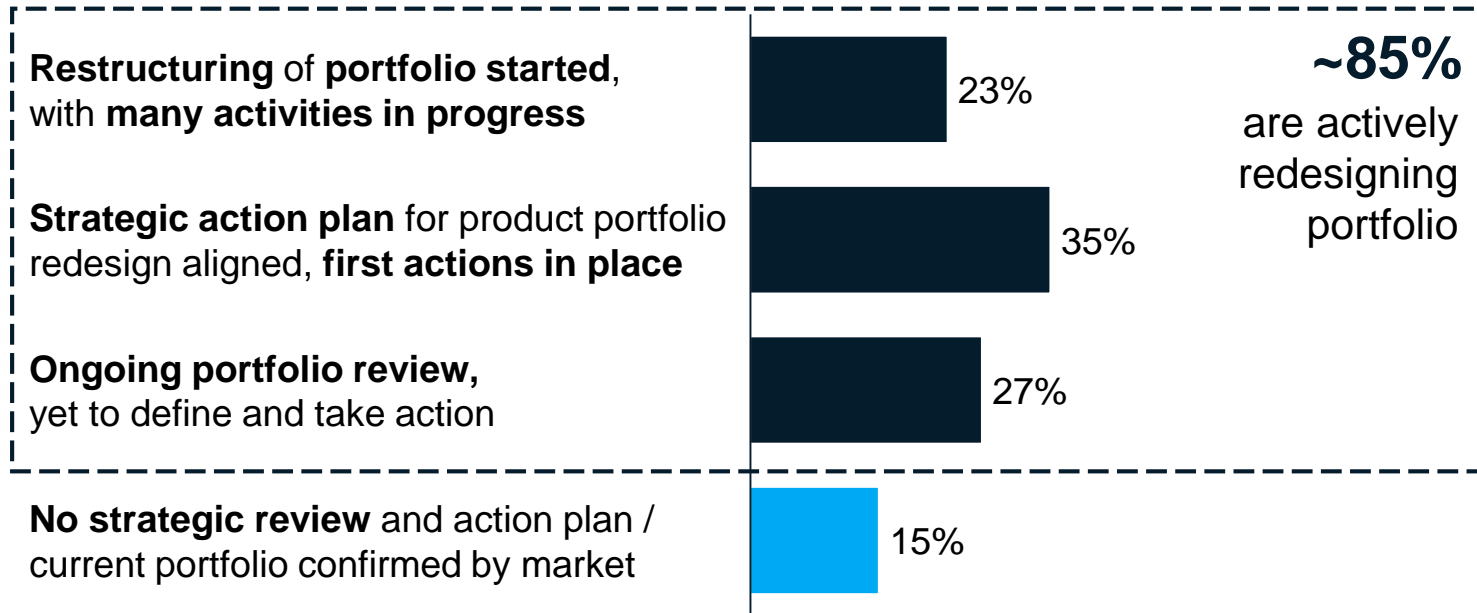
! Short-term focus on stringent **cash management** will not lose importance in the mid-/long-term
Innovation leadership & redesigned product portfolios will become critical to success as market developments pick up pace

¹ % of respondents categorizing characteristic as “key success characteristic” (5,6,7)
 Note: Displayed percent values without accounting for “N/A” answers. N=40 (September 14th – October 4th, 2020)

85% of suppliers are actively reviewing and redesigning their portfolio

Survey conducted between September 14th – October 4th, 2020

Is your company right now considering or implementing significant changes to the product portfolio?

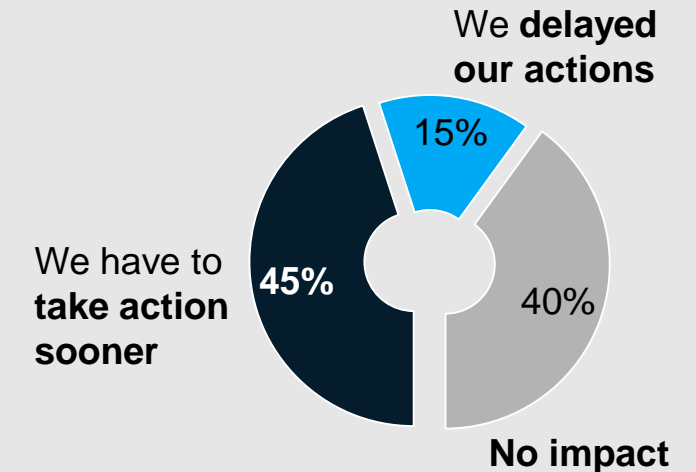


! ~60% of respondents already started to take action to implement changes
Covid-19 further increased pressure for timely adaptations

Note: Displayed percent values without accounting for "N/A" answers. N=40 (September 14th – October 4th, 2020)

SOURCE: McKinsey CLEPA Pulse Check Survey

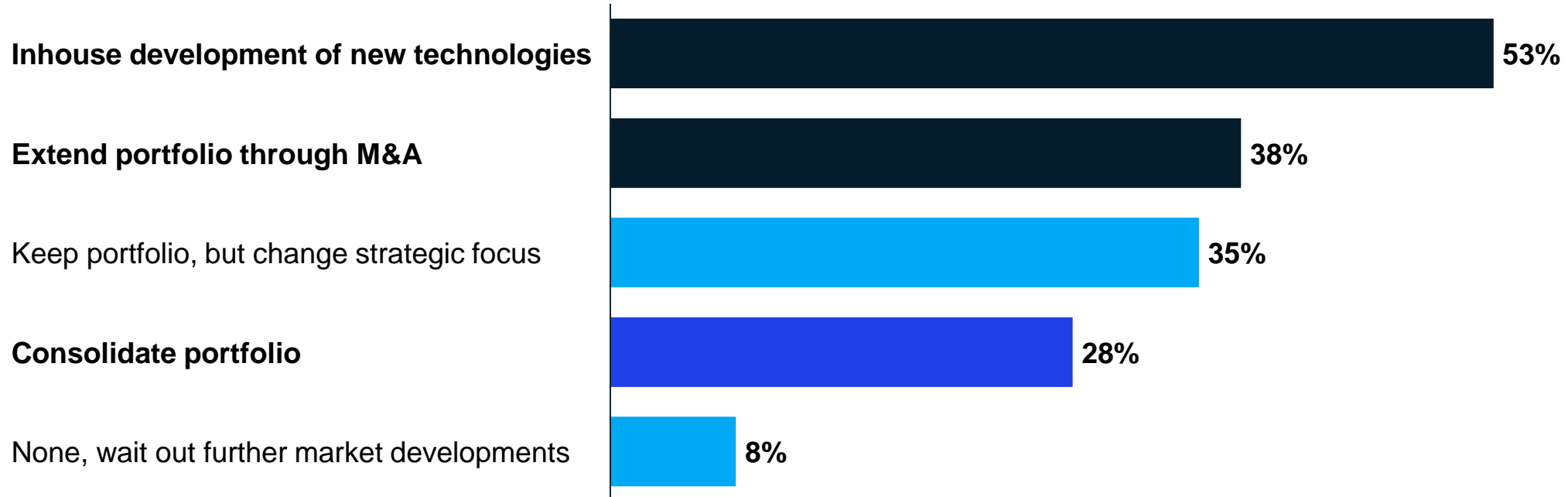
Did COVID-19 impact the planned portfolio changes?



Suppliers risk inflated portfolios as majority favors portfolio increases over consolidation

Survey conducted between September 14th – October 4th, 2020

What type of portfolio changes are particularly being considered for your company?



Only 1 in 4 suppliers is willing to **consolidate portfolio**, whereas **majority plans portfolio increases**

Clear mismatch between **declining markets** and **increasing portfolios** will intensify competition

For suppliers considering consolidation, **product line closures** and the **downsizing of plant capacities** are key levers

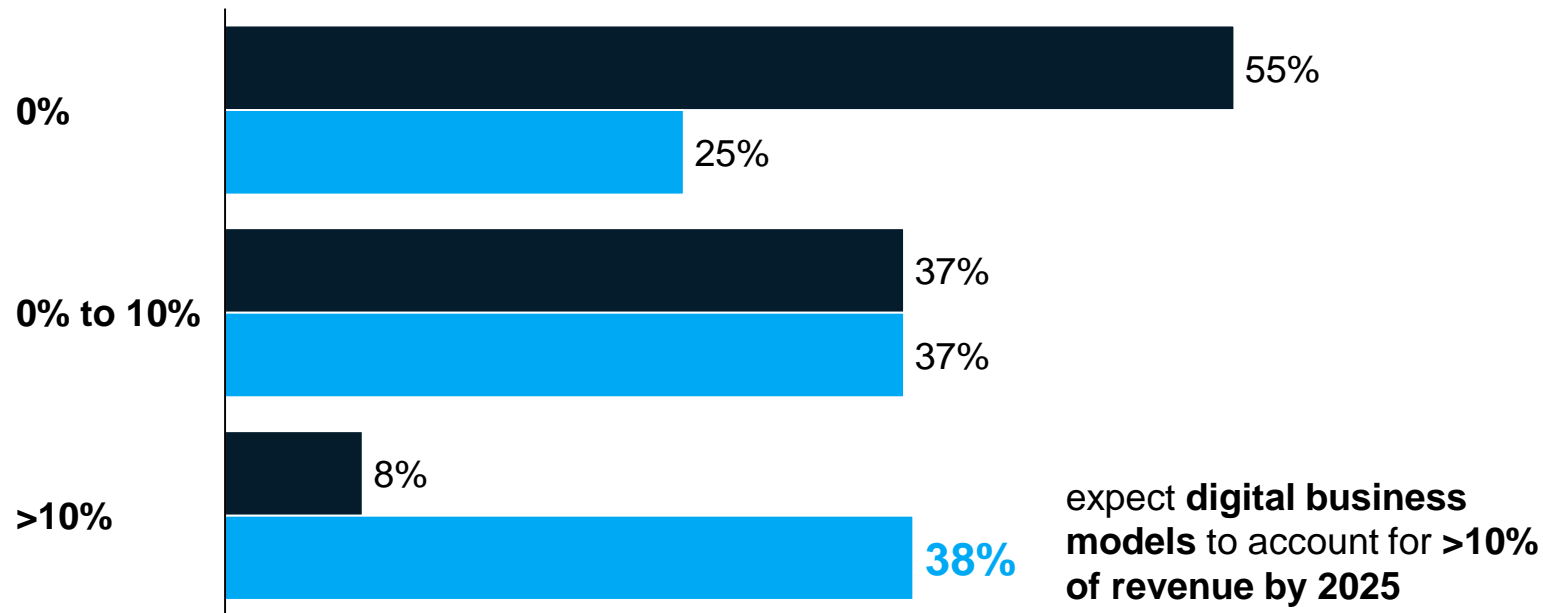
Note: Displayed percent values without accounting for "N/A" answers. N=40 (September 14th – October 4th, 2020)

Digital business models expected to gain traction towards 2025 – with ~40% of respondents expecting significant revenue

Survey conducted between September 14th – October 4th, 2020

■ 2020 ■ 2025

What share of your revenue do you generate with new, digital business models now vs. 2025?



Potential digital business models from suppliers

Connected car services

Shared mobility

Digital e-commerce (after-) market place

Mobility platform provider

Insurance offerings

Car Data Aggregation & Monetization

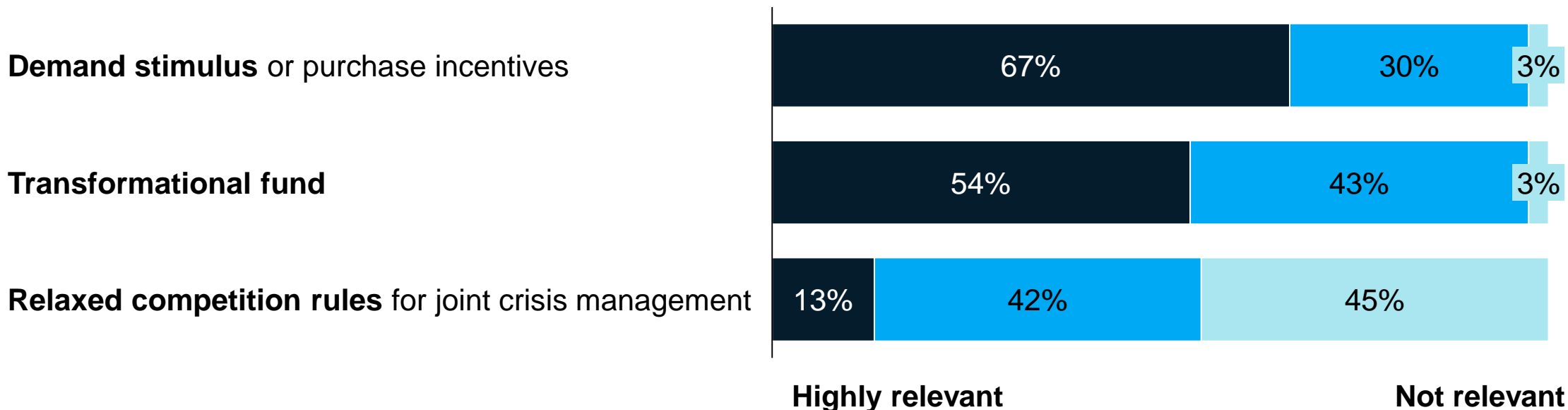
! Majority of suppliers have yet to start & establish their digital business offering
 First movers show possibilities in connected services (e.g. Continental/Carnegie) or data monetization (e.g. Aptiv/otonomo)

Note: Displayed percent values without accounting for "N/A" answers. N=40 (September 14th – October 4th, 2020)

Almost all respondents would welcome governmental support through demand stimulus or a transformational fund

Survey conducted between September 14th – October 4th, 2020

Which of the following governmental support measures is most helpful for suppliers during the current crisis?



! Respondents clearly **prefer direct stimuli and equity support** over the indirect advantages of **relaxed competition rules**
Other ideas include: Extended **short-time work**, delayed tightening of **CO2 limits**, better **protection of EU market**

Note: Displayed percent values without accounting for "N/A" answers. N=40 (September 14th – October 4th, 2020)

This CLEPA Pulse Check focuses on ...

Pulse Check – Automotive Supplier Industry

- Status of the automotive supplier industry
- Success factors in navigating a shifting landscape and market developments

McKinsey Perspective – Potential in Decarbonization and Successful Transformations

- **Sustainability and decarbonization potential**
 - Successful transformations in a challenging market environment
-

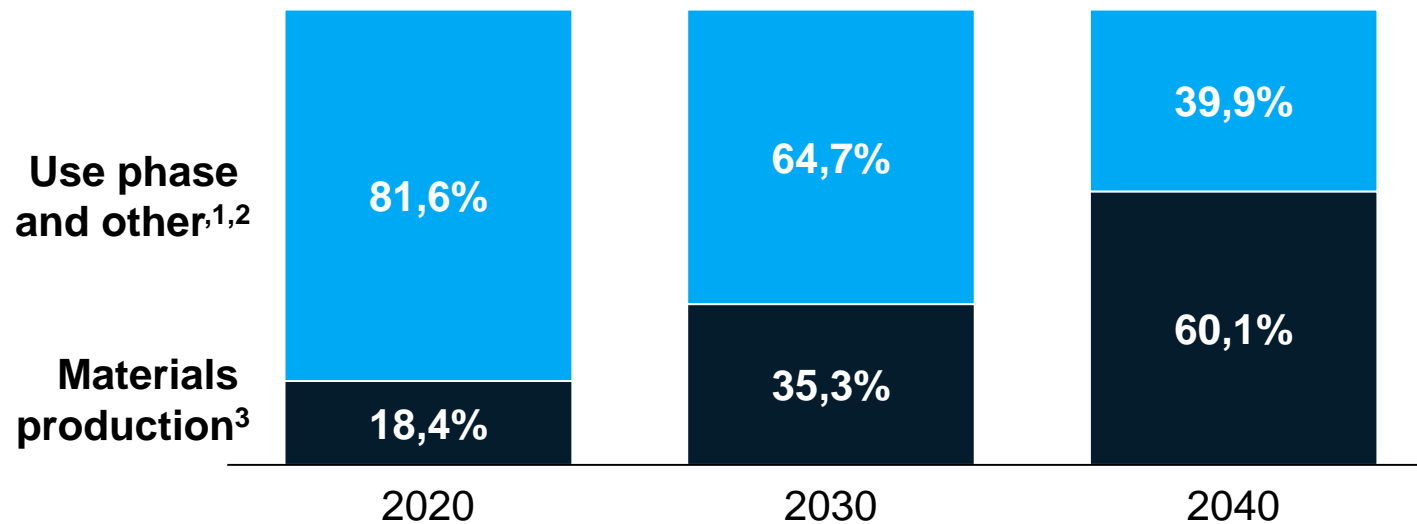


*CLEPA Pulse Check
October 2020*

Decarbonization of material emissions is the next frontier of action

% of lifecycle emissions

Emissions from material production will have higher share than tailpipe emissions to achieve 2050 targets
in percent share (based on required sales data)



1. Assumed constant range of 150,000 km/vehicle as baseline – End of life emissions not considered here
2. 2018 average ~120gCO₂/km, target today 95 gCO₂/km; Future assumptions: 2030 75 gCO₂/km; 2040 50 gCO₂/km; 0.10-0.16 kWh/km for xEV
3. Average material emissions: ICE 3,000, EV 7,400, PHEV 5,000, HEV 4,000 kg/CO₂ per vehicle as of model (hold constant as decarbonization in focus)
4. Current BEV, PHEV, HEV penetration in relevant regions at 4-8%;2030: BEV 33%, PHEV 12%, HEV 7%; 2040: BEV 60%, PHEV 27%, HEV 13%
5. 2020 US/Germany at average 450 gCO₂/kWh; future assumptions: 2030 320 gCO₂/kWh (current EU average), 2040 160 gCO₂/kWh, 2050

Wide range of actions required to achieving net-zero in 2050

- Sales of **fully electrified fleet**⁴ by 2040 (Europe) reducing use phase emissions
- The **production of green electricity**⁵ to reduce use phase emissions further

With this, **material emissions will increase** both relatively and absolutely

Strategies for reduction of material emissions need to be initiated today

Different challenges make comprehensive lever consideration and prioritization necessary

Based on modelled example ICEV¹

For example: **25% abatement** could be achieved, but needs to consider high differences on pathway with respect to



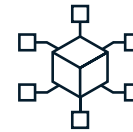
Abatement costs²

Cost saving 70-80 \$/tCO₂ vs. costs of 80-90 \$/tCO₂



Maturity of levers³

Existing technologies or technologies available over next 5 years (or in 2040)



Complexity⁴

Implement 1-2 technical levers only vs. through combination of 17 levers



Risk of high costs and low return, inefficient coordination, or wrong partnerships

Comprehensive lever view required

Get **clear strategy** and 2030/2050 roadmap

Focus on **right technologies**, in **right sequence**

Get highest **impact on investments**

Build **right partnerships and alliances** in collaboration

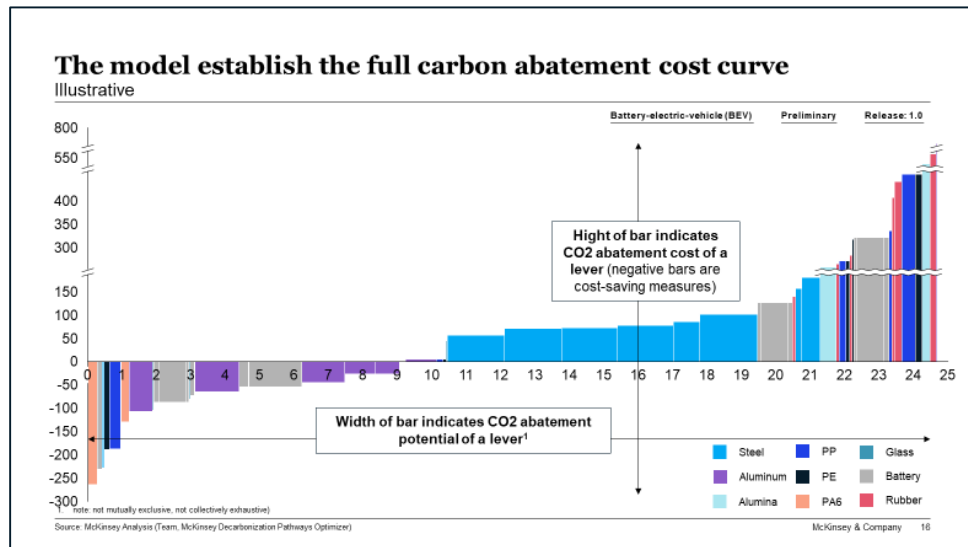
Be **effective in coordination** of partners and transition

Get **early results** in implementation

1. See deep-dives in abatement curve pages below
2. Mainly in increased open loop recycling of aluminum (0.58 tCO₂) and green electricity powered inert anode (0.42 tCO₂) as well as mechanical (0.12 tCO₂) and monomer recycling (0.2 tCO₂) in plastics; Mainly in BR/NBR/SBR biomass or cracker electrification (0.36 tCO₂) or hydrogen-based DRI in steel (up to 0.95 tCO₂)
3. Today: mainly using green energy sources an increased recycling; ~5 years through inert anode and closed loops, 2040: Mainly adding hydrogen
4. Almost fully possible with 1 lever such as H₂-based DRI, EAF route in steel; or combination of open and closed loops in aluminum

Our proprietary abatement model helps to design a comprehensive material decarbonization strategy – first-of-its kind

First-of-its-kind model for automotive upstream carbon abatement



Model supports abatement strategy and action-planning

- Comprehensive abatement cost model for **>90% of material weight** and emissions
- **Full set of technical abatement and circularity levers** with impact and cost through 2050
- Helps **balance cost versus impact** across **materials** and over **time**
- Enables **planning and prioritization** of **near-term** supply chain abatement plan
- Supports **decision-making** to establish a **long-term, optimized abatement program**



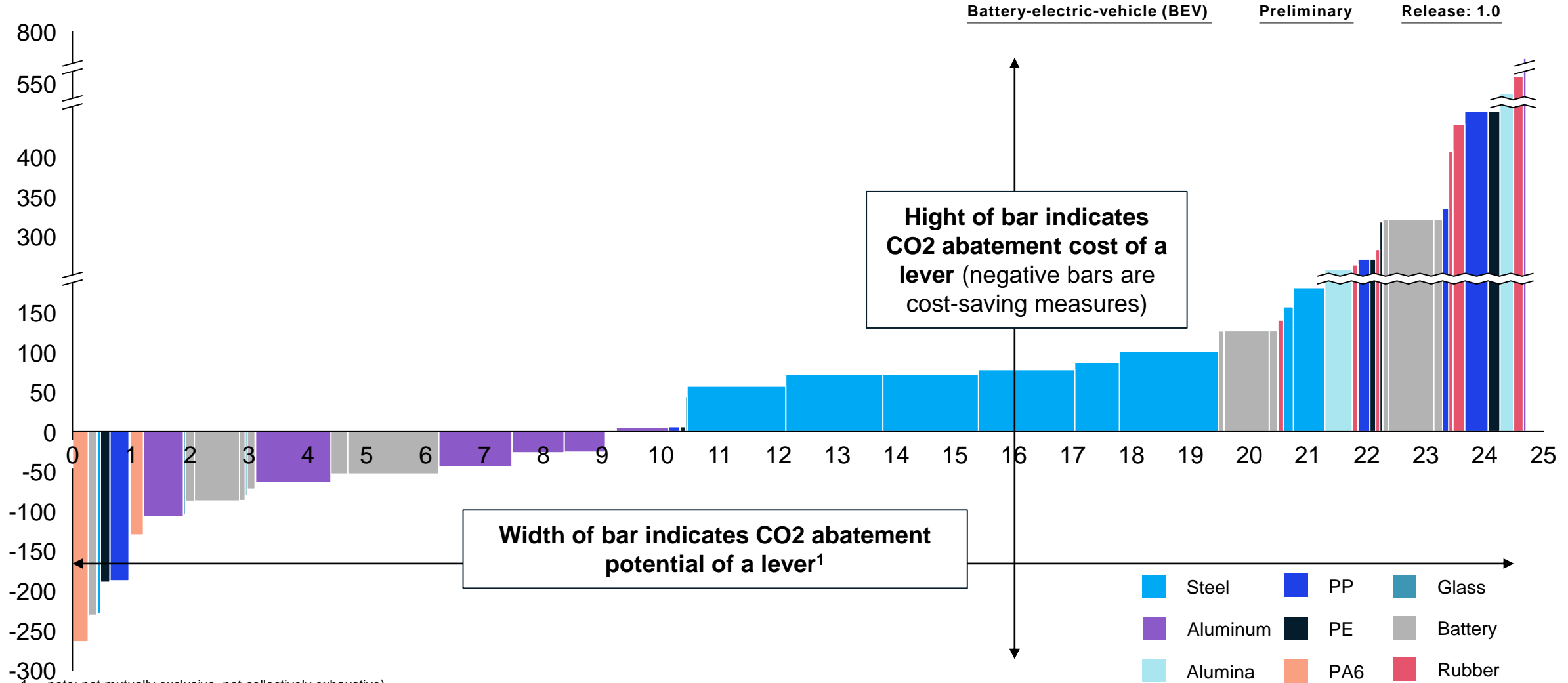
Validated as
flagship topic
in WEF Circular Car
Initiative

“This is the most holistic perspective I have seen so far”
(Leading plastics supplier, Head of Global PD)

“This will push discussion at right management level and change our supplier discussions”
(German OEM, Head of Sus. Strategy)

The model establish the full carbon abatement cost curve

Illustrative



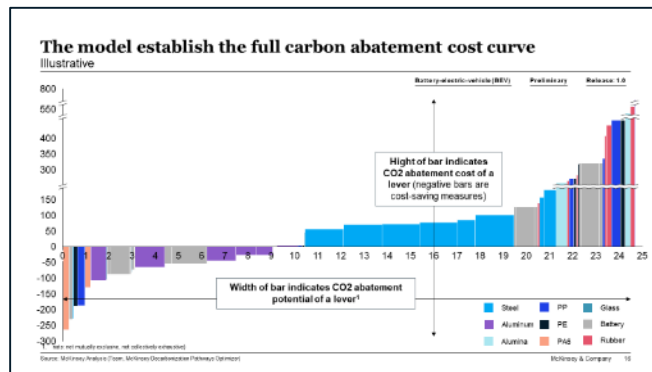
Our perspective on how to act on the next frontier and make a step-change in materials decarbonization

A

Build full perspective on possible actions

Client-specific view on most suitable levers over all materials and **potential pathways**

“Open the solution space”



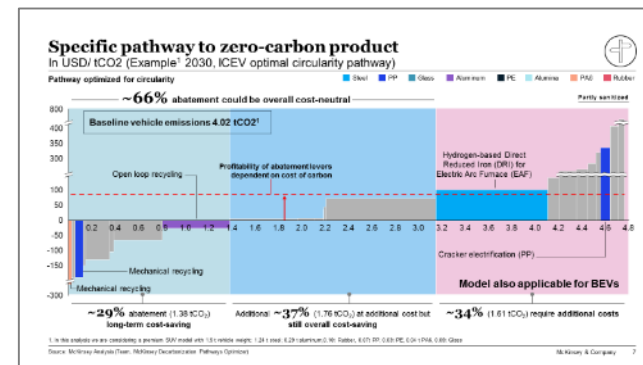
B



Define what actions to reach zero-carbon products

Concrete ambition and best pathway considering **abatement curves** and **client context / starting point**

“Commit based on facts”



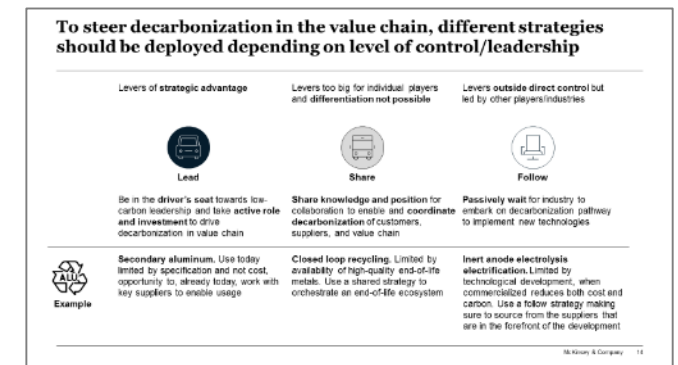
C



Outline implementation roadmap

Clarity on where to lead, share, follow with **new collaboration models and alliances**

“Get ready to execute”



This CLEPA Pulse Check focuses on ...

Pulse Check – Automotive Supplier Industry

- Status of the automotive supplier industry
- Success factors in navigating a shifting landscape and market developments






McKinsey Perspective – Potential in Decarbonization and Successful Transformations

- Sustainability and decarbonization potential
 - **Successful transformations in a challenging market environment**
-



*CLEPA Pulse Check
October 2020*

70% of transformations don't succeed. Here are 5 reasons why...

-  **1** Misaligned Leadership
 -  **2** Uncompelling aspiration and transformation story
 -  **3** Failure to build deep execution capability
 -  **4** Poor hardwiring to performance outcomes
 -  **5** No line ownership of the execution
-

~70%

Unsuccessful transformations



So how do you
flip the odds?



~30%

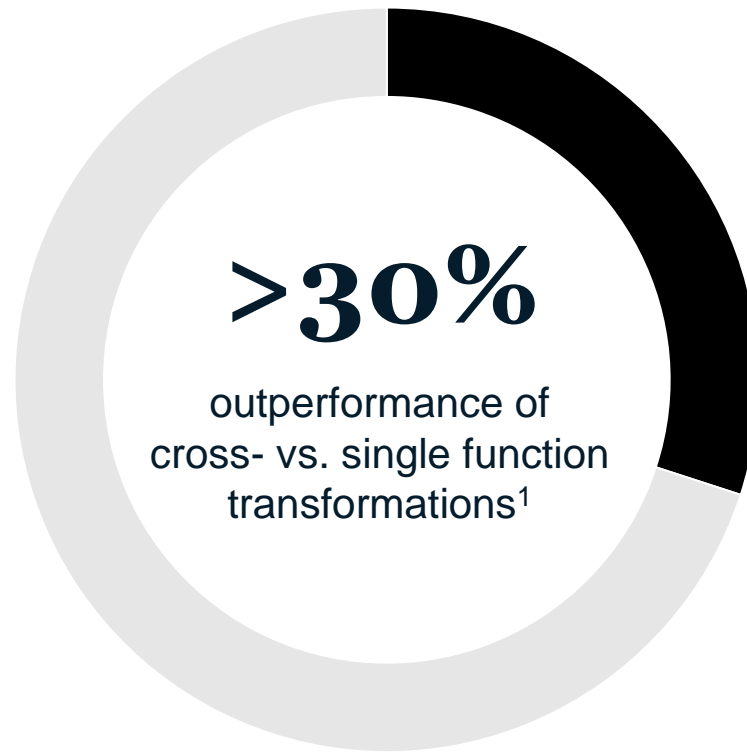
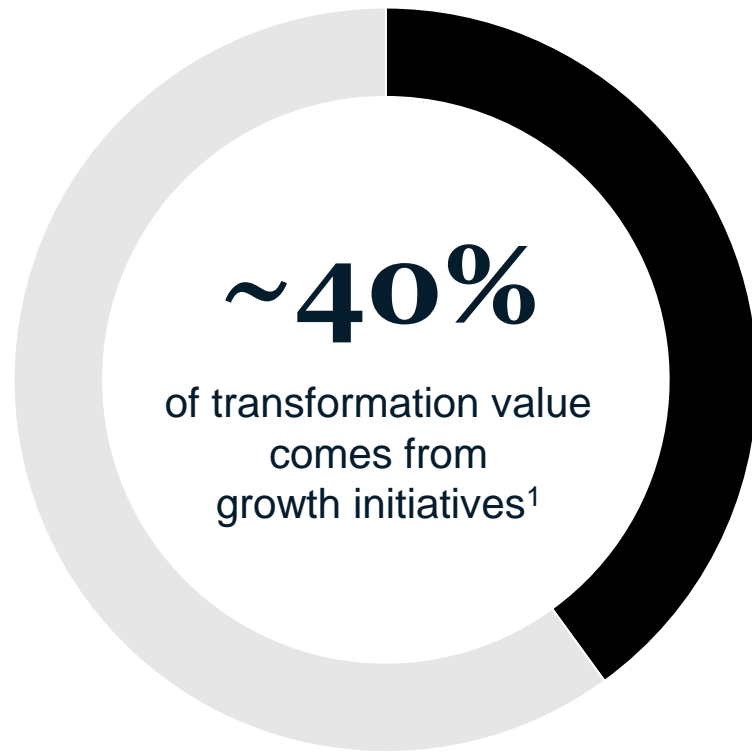
Delivering full potential

Across hundreds of transformations, we consistently see six elements that underpin the most successful transformations

<p>A</p> <p>Set the highest aspiration</p> <p>Use fact-based, unbiased analyses and insights to assess the full potential for transformation across performance, health and capabilities</p>	<p>B</p> <p>Insist on leadership alignment</p> <p>Ensure transformation is a top management priority, with aligned aspirations and incentives, and that leaders are visibly role-modeling the change</p>	<p>C</p> <p>Integrate culture and capabilities</p> <p>Shift organizational health and build talent and capabilities at scale to sustain value over time</p>	<p>D</p> <p>Foster an owner's mindset in every employee</p> <p>Encourage measured risks based on long-term value, not short-term gain</p>	<p>E</p> <p>Empower a structure for relentless execution</p> <p>Implement a disciplined approach to execution that drives rapid and real time transparent performance management</p>	<p>F</p> <p>Ensure the change is line-led</p> <p>Create conviction in line leaders to lead the change, set goals, make commitments, and execute plans</p>
What our data has shown					
<p>Setting targets at >75% of trailing earnings increases chances of outsized TRS gains</p>	<p>33% of transformations fail because senior leaders did not role model the change</p>	<p>~2x excess TRS when health measures fully implemented</p>	<p>68% of transformation value from smaller initiatives (<\$250K)</p>	<p>70% of initiatives restocked after the first year</p>	<p>8–20% of workforce engaged in the transformation</p>

Our research shows that transformations targeting both the top and bottom lines have been most successful

"Go big, go broad" and "move fast" as key drivers of transformation value



1. Statistically significant correlation with top-quartile financial performance based on research of 82 publicly listed companies that went through a transformation for a measurable 18-month period and whose total returns to shareholders (TRS) could be paired with a representative sector and geographic stock index, allowing us to measure excess TRS against the index for an 18-month period following the launch of a transformation

2. Data based on company performance in the 2008/2009 financial crisis; resilient companies only lost 1% of organic revenue vs. 2007 level during 2009

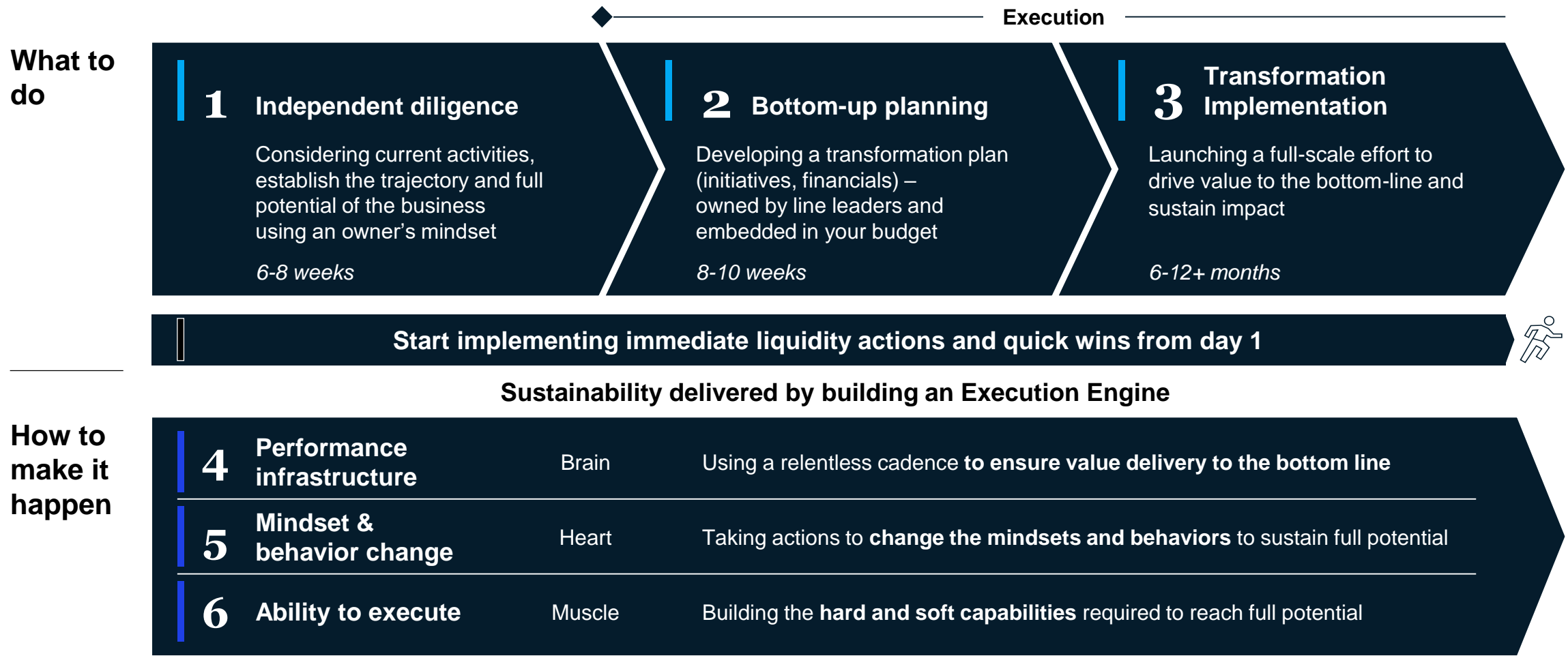
Moving fast matters²

Companies which moved fast and build resilience during crisis sustained organic revenue growth throughout the recession and outperformed in recovery

Resilient companies moved not only early but also harder on productivity and preserved growth capacity

Resilient companies achieved more than 30% increase in revenues compared to non-resilient companies

An integrated transformation approach addressing process as well as mindsets and capabilities has the greatest chance of success



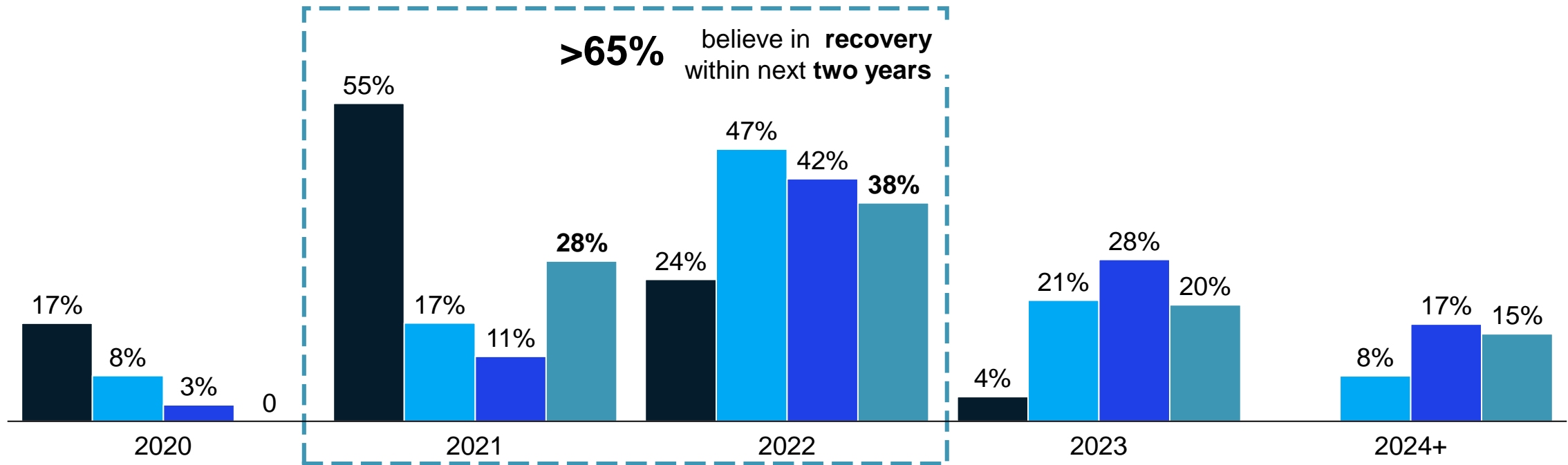
BACKUP

While recovery within in 2020 is clearly out of the picture, suppliers regained confidence in a recovery within the next two years

Survey conducted between September 14th – October 4th, 2020

■ March 20-24 ■ April 27-30 ■ June 15-23 ■ Sep 14 - Oct 4

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



Respondents regained **confidence** in a **recovery within the next two years**, with 65% of respondents expecting full recovery until 2022

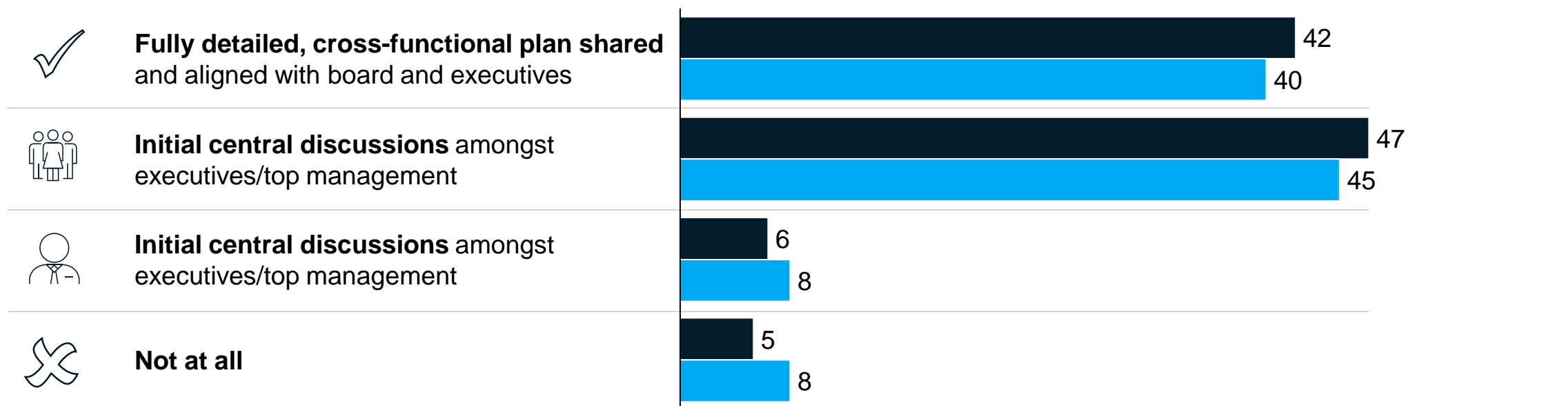
Note: Displayed percent values without accounting for "N/A" answers. N=116 (March 20-24, 2020), N=79 (April 27-30, 2020), N=36 (June 15-23, 2020), N=40 (September 14th – October 4th, 2020)

Preparedness of suppliers for further COVID-19 waves and restrictions did not improve in the last quarter

Survey conducted between September 14th – October 4th, 2020

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

■ June 15-23th ■ September 14th - October 4th



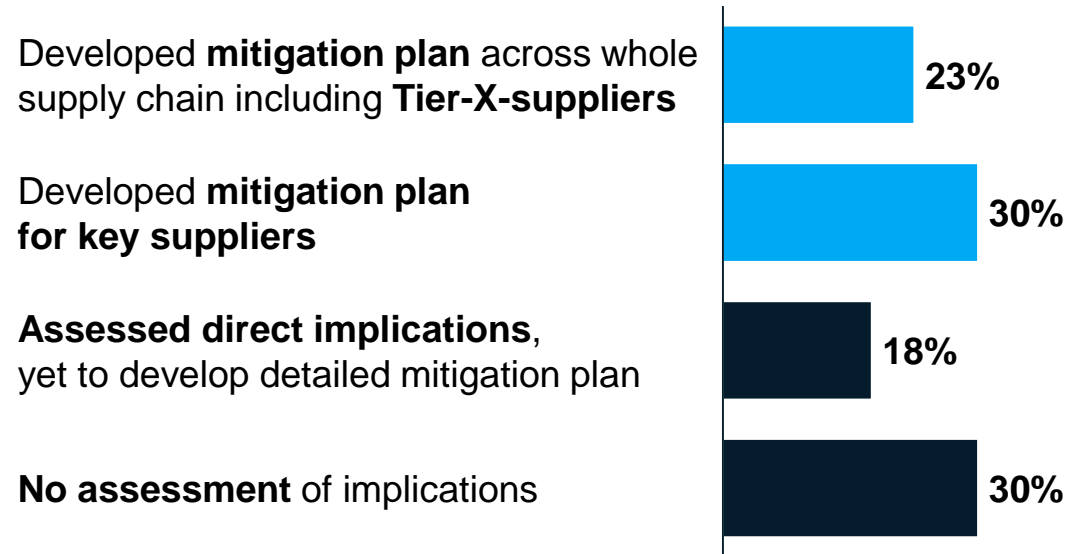
! Despite a clear resurgence of incidents, the preparedness of respondents for a return of COVID-19 restrictions did not improve during the last 3 months

Note: Displayed percent values without accounting for "N/A" answers. N=36 (June 15-23, 2020), N=40 (September 14th – October 4th, 2020)

Brexit preparedness varies greatly across respondents...

Survey conducted between September 14th – October 4th, 2020

How well prepared is your company for a potential "no-deal" Brexit in January 2021?



! >90% of suppliers exposed to risk regarding Brexit
Only 50% with a detailed mitigation plan in place

Note: Displayed percent values without accounting for "N/A" answers. N=40 (September 14th – October 4th, 2020)

SOURCE: McKinsey CLEPA Pulse Check Survey

...although majority is exposed to some extent

Which risks do you see regarding Brexit for your company?

