

# COVID-19 Financial Risk Assessment Automotive Suppliers

A call to action

COVID-19 is first and foremost a global health crisis and taking care of impacted people and uniting as a society to slow the spread is, and must remain, our top priority

Nonetheless, COVID-19 is also an economic crisis unlike anything seen in more than 100 years, progressing at unprecedented speed and bringing economies across the globe to a halt

The automotive industry is acutely impacted and BCG is forecasting a ~20% decline in new vehicle sales for 2020, with the potential for a global decline of more than 40% (a level not seen since the financial crisis of 2008 / 2009)

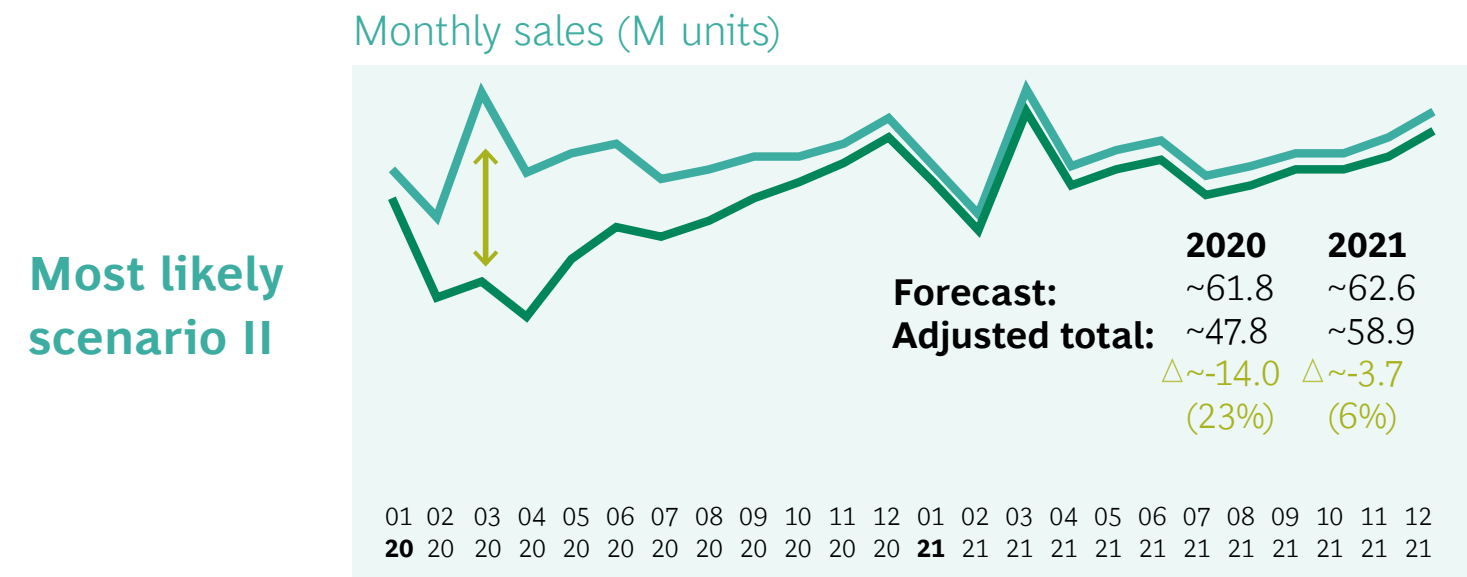
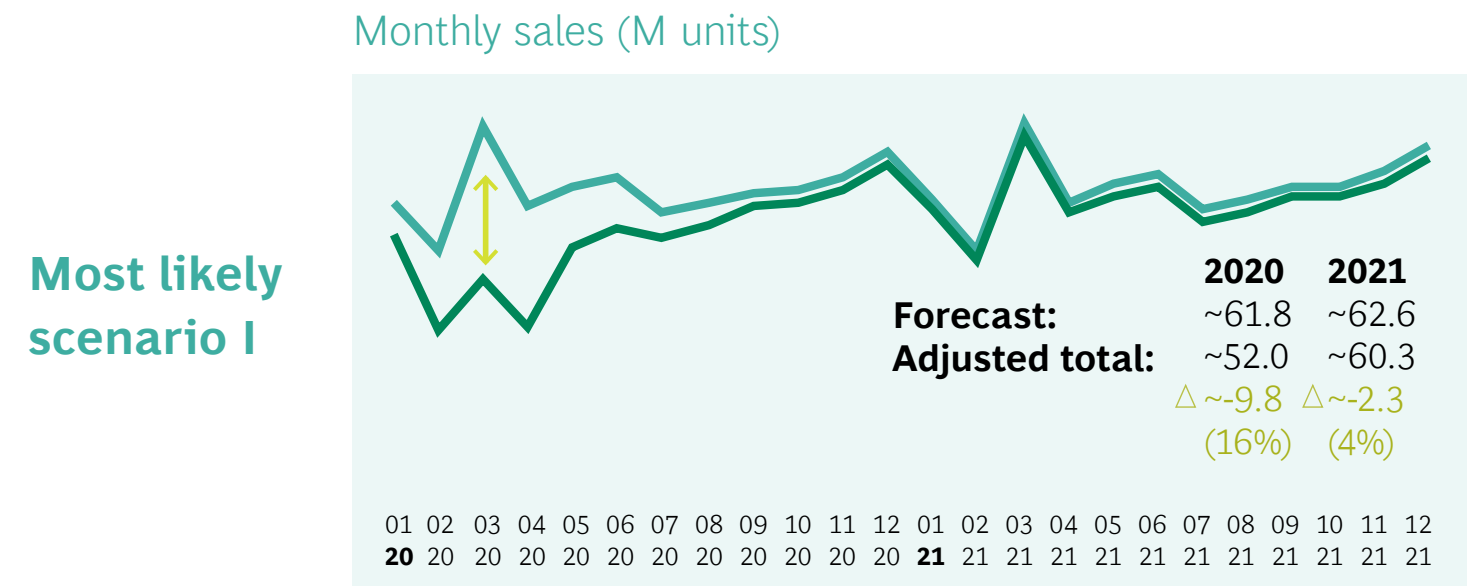
While the industry is healthier than it was a decade ago, such declines will have a tremendous impact on automotive suppliers... testing break-even points, draining cash, and in the case of some suppliers, putting their very survival at risk

Now is the time for strong, bold moves to strengthen the balance sheet and reduce costs to provide optionality through the uncertain months ahead... time is of the essence

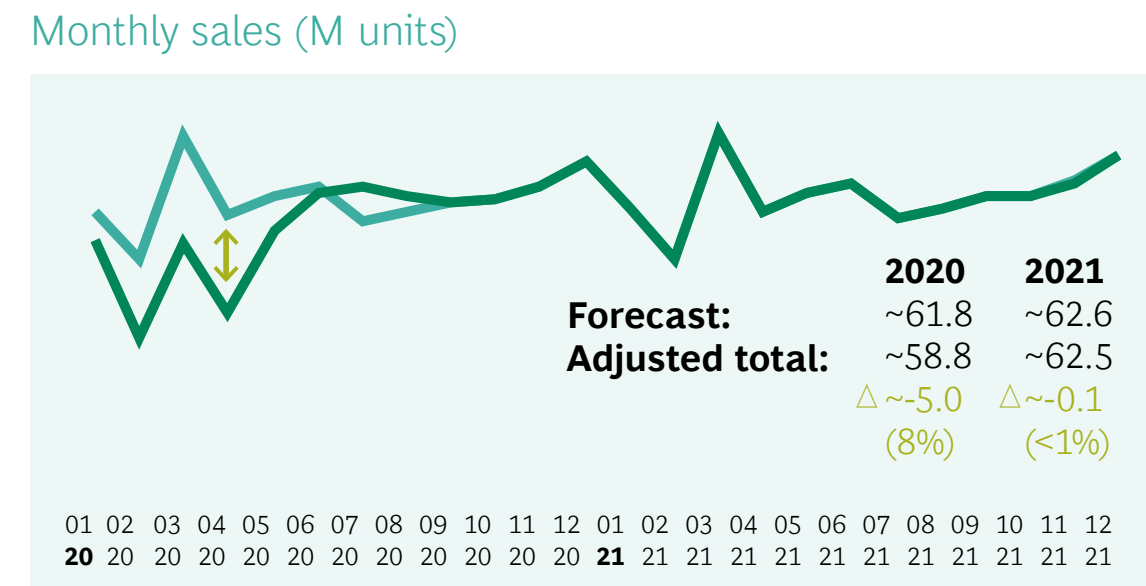
# BCG is forecasting a decline in new vehicle sales of ~20%, with worst case scenario suggesting decline of 40%+



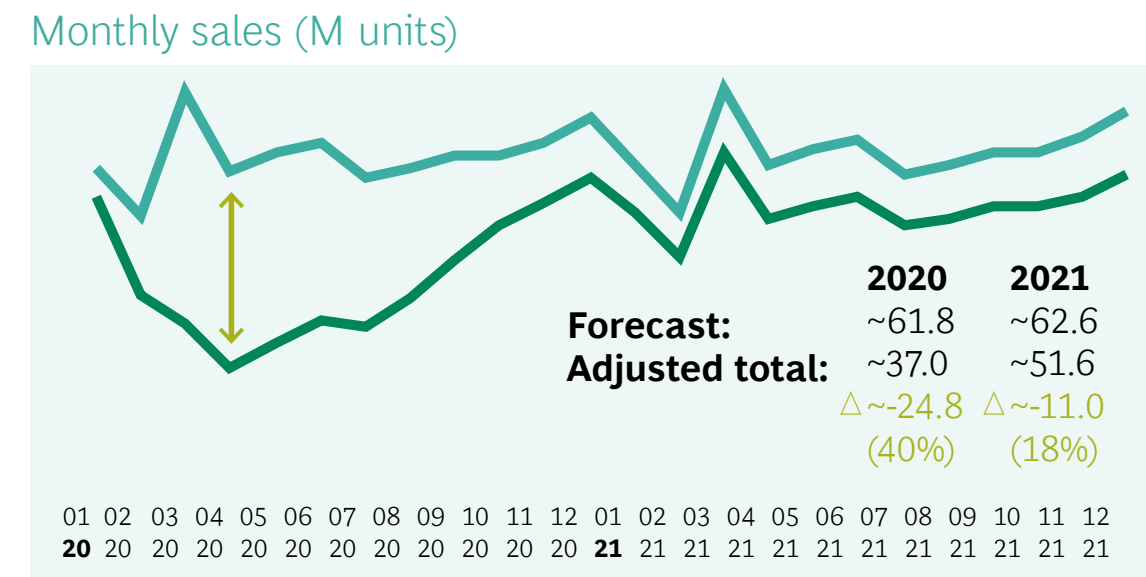
## Most likely scenario



## Optimistic scenario



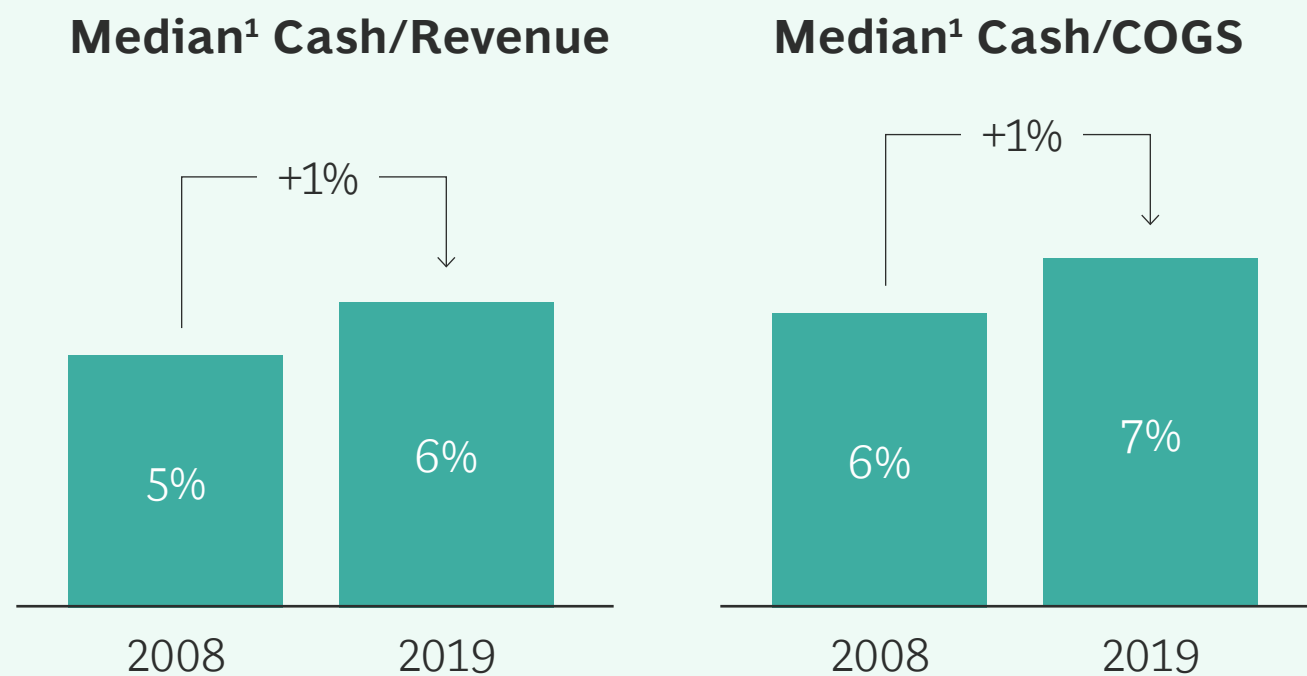
## Pessimistic scenario



Note: IHS forecast data with limited coronavirus effect as basis for scenario development  
Source: IHS Markit - LV sales forecast (Jan 2020); BCG analysis

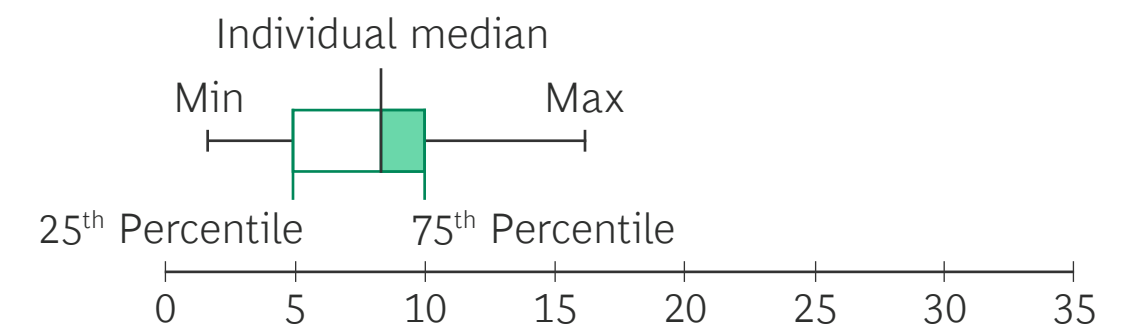
# Such declines will severely test suppliers, which as a sector, have shown little improvement in cash position since 2008

As a group, suppliers have shown little improvement in cash position relative to the financial crisis...

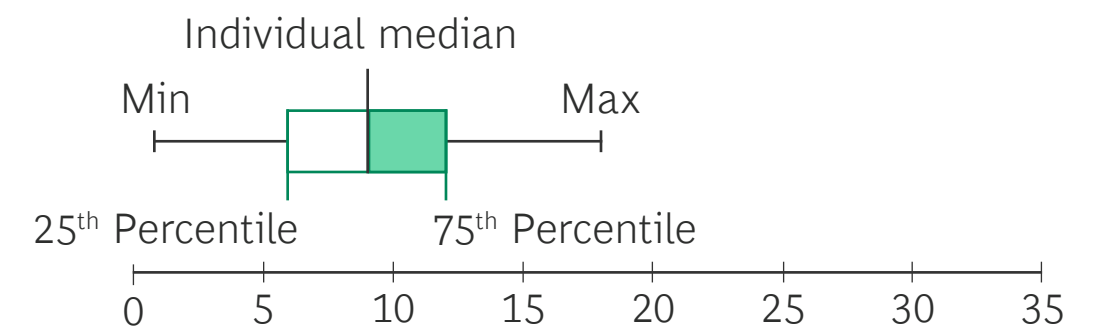


... but a spectrum exists across individuals suppliers

## 2019 Cash/Revenue %

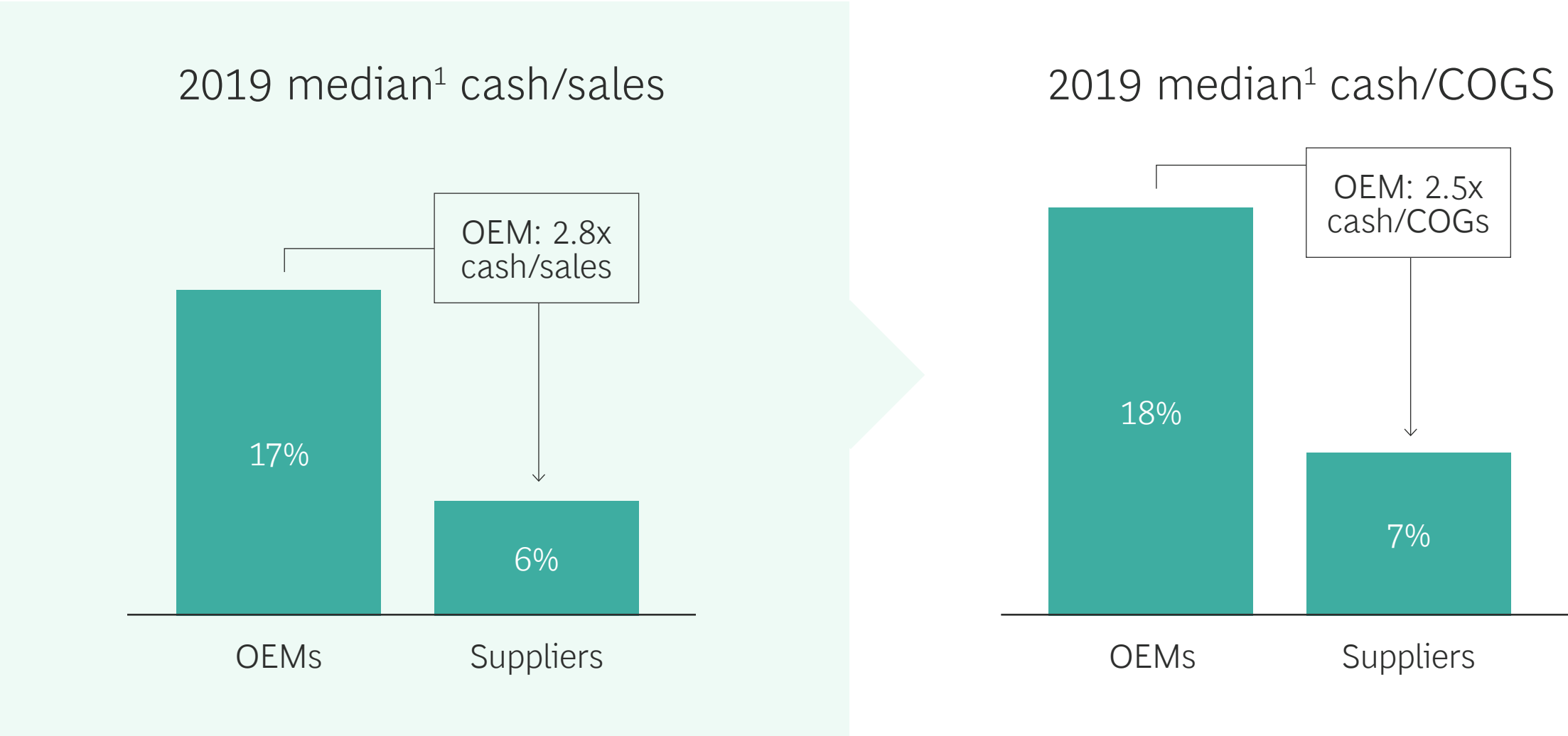


## 2019 Cash/COGS %



1. Weighted median for 30 suppliers as selected from top 50 global suppliers, excluding diversified industrials and non-publicly traded companies  
Note: Cash reported at year end or most recent LTM if 2019 year end not yet available; Revenue reported over fiscal year; Excludes financing/credit divisions; Cash includes Cash, Near Cash Items, and ST Investments (Money markets)  
Source: S&P Capital IQ, BCG Analysis

# Suppliers headed into the COVID-19 crisis with a far weaker cash position than OEMs

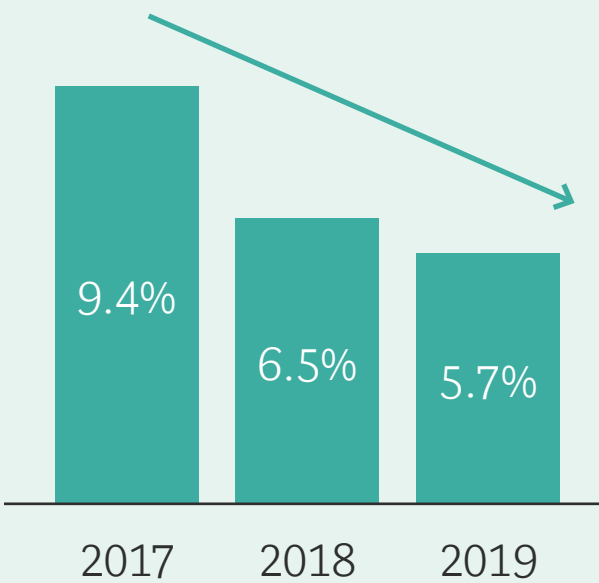


1. Weighted median from set of 13 leading OEMs: Tata, Ford, GM, Daimler, Tesla, Nissan, Toyota, Fiat Chrysler, VW, BMW, Peugeot, Kia, and Honda; weighted median from set of 30 global suppliers as selected from top 50 global suppliers, excluding diversified industrials and non-publicly traded companies  
Note: Cash reported at year end or most recent LTM if 2019 year end not yet available; Revenue reported over fiscal year; Excludes financing/credit divisions; Cash includes Cash, Near Cash Items, and Short Term Investments (money market)  
Source: S&P Capital IQ, BCG Analysis

# Even before COVID-19, suppliers had been under immense pressure for preceding 18–24 months

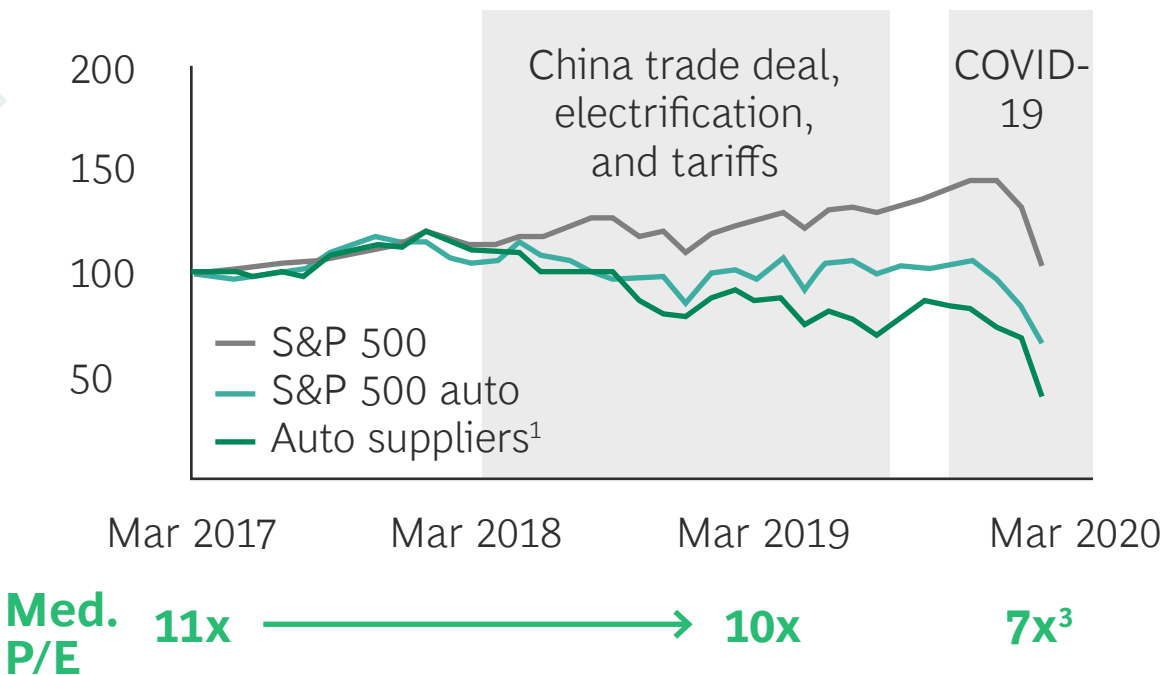
Supplier margin has been compressing...

Median<sup>1</sup> EBIT/sales



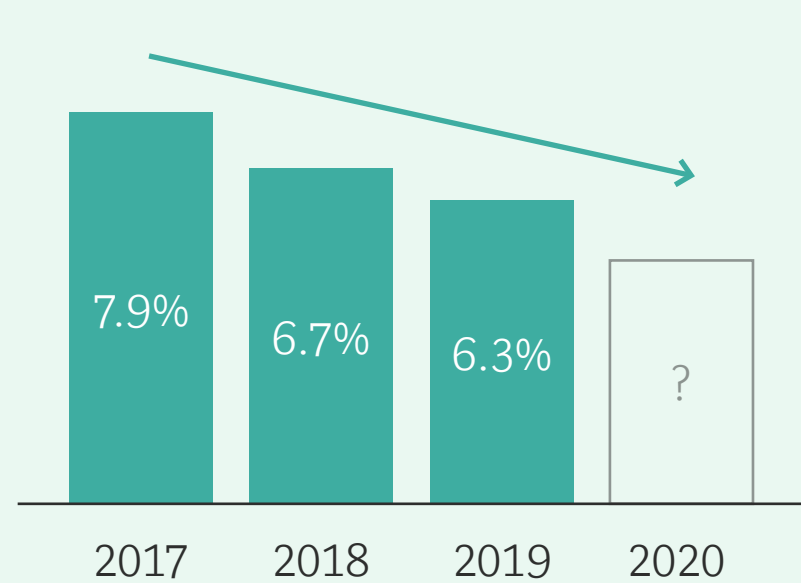
...leading to declining investor sentiment and valuations...

Indexed supplier<sup>1</sup> market returns vs. auto and S&P 500



...and downturn impacts will stretch cash positions further

Median supplier<sup>1</sup> cash/sales



1. Weighted median from set of 30 global suppliers as selected from top 50 global suppliers, excluding diversified industrials and non-publicly traded companies; 2. As of close March 20; 3. Forward P/E for select US-based auto suppliers  
 Note: Cash reported at year end or most recent LTM; Rev. reported over fiscal year; Excludes financing/credit divisions; Cash includes Cash, Near Cash, and ST Investments (money market)  
 Source: S&P Capital IQ, BCG Value Science Center, BCG Analysis

# Many suppliers are now approaching the upper limits of debt covenants and are at increasing risk of default



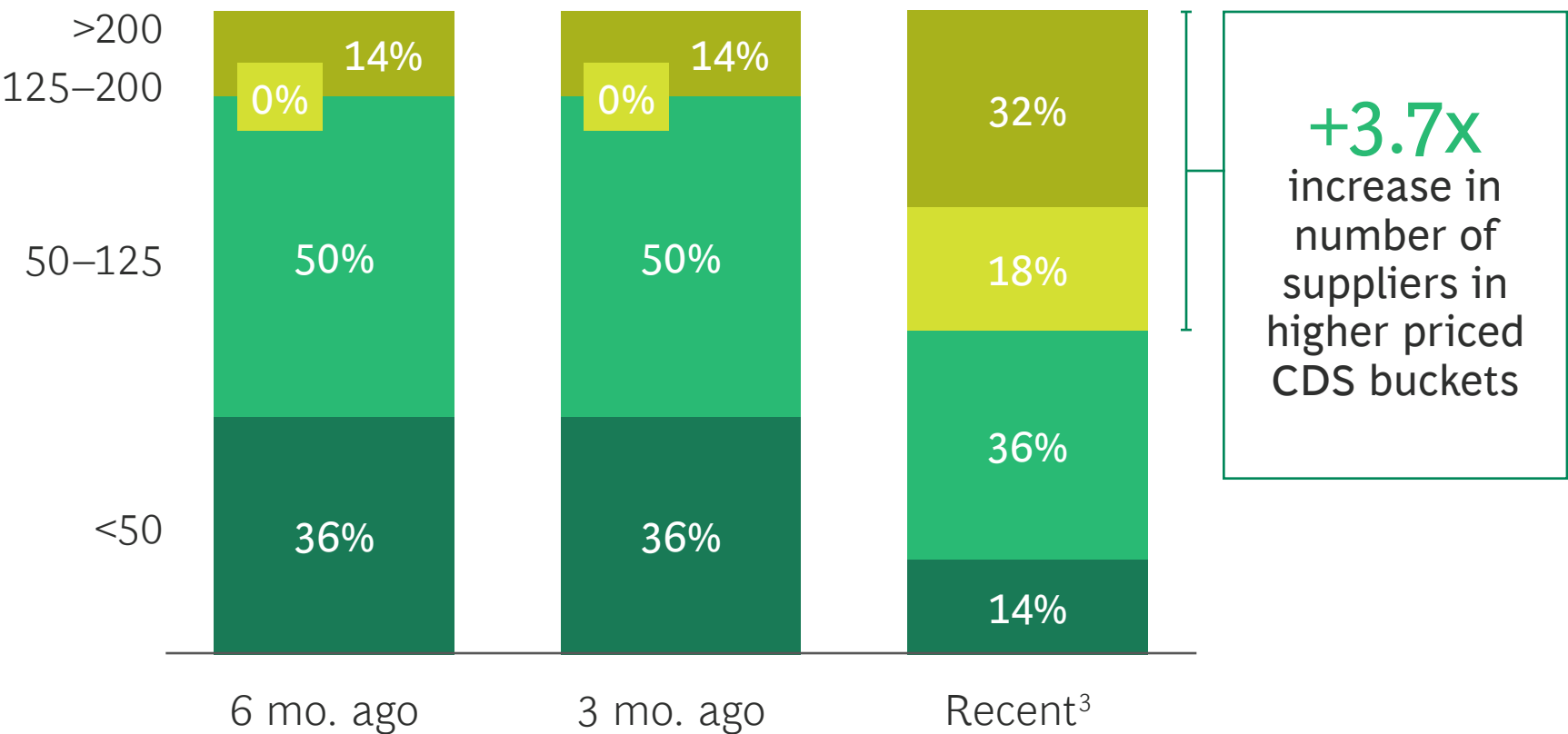
Price to insure  
against default

Higher  
(more risk)



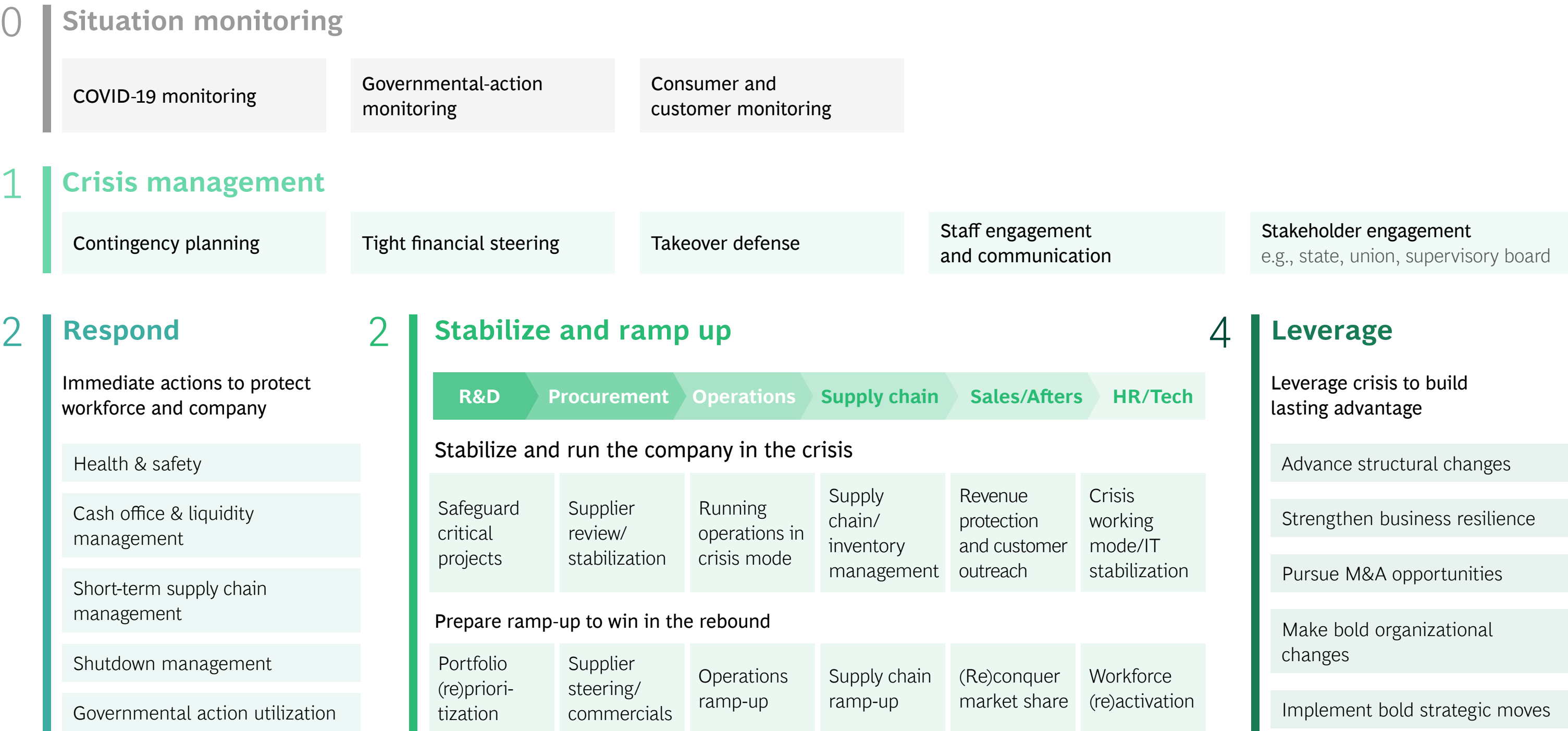
Lower  
(less risk)

Suppliers<sup>1</sup> grouped by CDS<sup>2</sup> pricing (basis points)



1. From set of 22 global automotive suppliers; 2. 5-year term CDS premium rates on supplier debt 3. As of March 24th 2020  
Source: S&P Capital IQ, Bloomberg, BCG Value Sciences

# The response to COVID-19 requires a comprehensive approach



Source: BCG analysis.

# Seven immediate priorities for suppliers



- 1 Launch a crisis management team, including a cash management office to shore up the balance sheet (e.g., suspend buybacks as needed, access lines of credit, freeze all non-essential spend, etc.)
- 2 Drive enterprisewide cost reductions to the core (if it doesn't hurt you are not being aggressive enough)
- 3 Conduct detailed program profitability review and look to lengthen payment terms and re-price wherever possible
- 4 Engage most critical customers, prioritize their product launches and production accordingly (make yourself essential)
- 5 Lead by example, communicate frequently and promote 'all-hands on deck' culture (remember sacrifices when things return to normal)
- 6 Proactively reach out to investors and articulate your narrative (similarly, keep an eye toward activism, and vulnerabilities vs. peers)
- 7 If liquidity situation allows, consider selectively going on the offensive to fill strategic gaps (refresh your M&A pipeline, monitor valuations, and move aggressively when opportunities arise)

The situation surrounding COVID-19 is dynamic and rapidly evolving, on a daily basis. Although we have taken great care prior to producing this presentation, it represents BCG's view at a particular point in time. This presentation is not intended to: (i) constitute medical or safety advice, nor be a substitute for the same; nor (ii) be seen as a formal endorsement or recommendation of a particular response. As such you are advised to make your own assessment as to the appropriate course of action to take, using this presentation as guidance. Please carefully consider local laws and guidance in your area, particularly the most recent advice issued by your local (and national) health authorities, before making any decision.