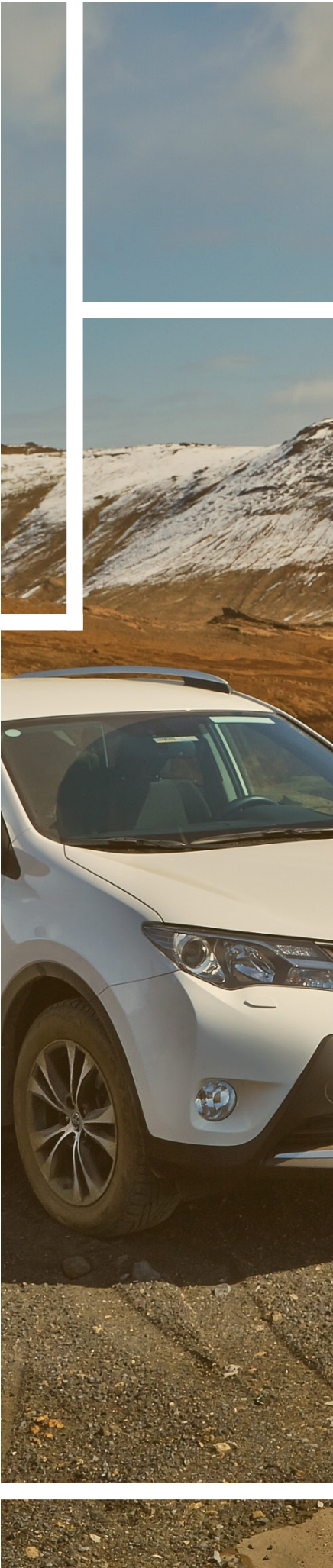


What is the New Normal? A Closer Look at Automotive Demand & Supply Chain Impact



CONTRIBUTORS

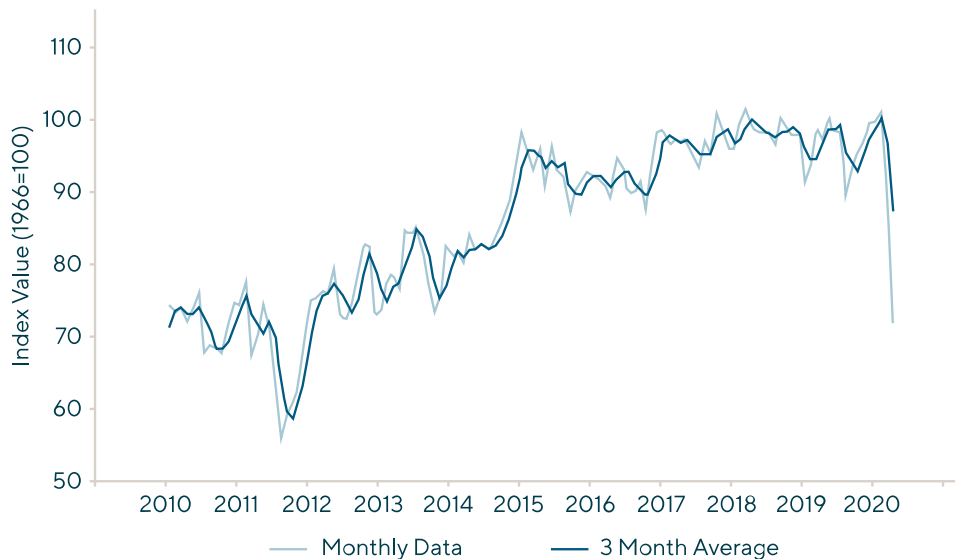
[Robert Satow](#), Managing Director, New York
[Patrick von Herz](#), Managing Director, Frankfurt
[Joe Robinson](#), Vice President, Chicago
[Sanjeev Varma](#), Senior Advisor, New York

In April, U.S. light vehicle sales fell almost 50% year on year and resulted in a seasonally adjusted annualized rate (SAAR) of just 8.6m – significantly lower than any other monthly sales figure in the recent past and even below the trough of 9m - 10m vehicles in 2008 and 2009. This reflects the devastating impact of the nationwide lockdown in the U.S. and the related economic impact the COVID-19 crisis has had. While there has been a lot of focus on when OE assembly facilities will be back up and how quickly production will ramp, a key question remains, what will be the new normal for demand – and will it be enough to attract investors?

NEW CHALLENGES FOR VEHICLE CONSUMERS

Consumer confidence has been severely shaken by the COVID-19 crisis:

The Index of Consumer Sentiment



Source: University of Michigan Consumer Sentiment Survey, www.sca.isr.umich.edu/files/chicsr.pdf

Over 35 million people have filed jobless claims since March and as a result, perspectives on vehicle purchases post-COVID-19 are shifting. Consumers need conviction in their financial security to be able to make long-term financing commitments to purchase new or used vehicles. A significant number of consumers have chosen, or will choose, to skip payments on auto loans to pay their mortgages, rents, and other critical living expenses. Ally Financial Inc. announced that 25% of auto-loan customers have asked for payment deferrals, 70% of those consumers have never had a late payment with Ally before. There is tremendous stress on credit institutions with little certainty for resolution.

Conversely consumers will face new financial realities, new perspectives about personal space, health and safety, and new restrictions for commuting to work and in the workplace. On the margin, some consumers looking to acquire their own vehicle may accelerate their purchase to secure their own private transportation to avoid ride sharing and public transportation. Their shopping experience may be completely virtual with online sales associates, virtual show rooms and home delivery services.

Many consumers will be priced out of the market for new and used vehicles altogether. They will hold onto their vehicles longer and will have to invest in maintenance and repairs driving the aftermarket. An open question remains

(continued next page)

for the new normal: How will consumers change their behaviors in the new normal? There are many possible outcomes that will be key to answer the question. Will people choose to leave urban centers? What will commuters do? How long will this last? When will there be a vaccine?

OEMs FLEX TO RESPOND

OEMs have already turned to incentives to try to maintain demand. Average industry incentives in April increased by almost 20% year on year according to TrueCar to almost \$700 per vehicle. As recently as March, General Motors was offering up to 84 months of zero percent APR financing and deferred payments for up to 120 days. Uncertainty regarding the duration and depth of the economic downturn and the shape of the recovery will tell the story of the stress and destruction done to car manufacturing and automotive financing companies.

We also look to government intervention to play a critical role in providing stability for the automotive industry. Leading German OEMs, Volkswagen AG and Daimler AG, have begun campaigns for the German government to stimulate the car buying market with Cash for Clunkers 2.0. The program would incentivize consumers to trade-in their old, used vehicles for new ones. Impacts are particularly acute as car manufacturing is the single largest industrial sector in Germany. The Chinese government has stood behind the automotive industry by indefinitely extending incentives for electric vehicle production that were scheduled to expire at the end of 2020. More locally, in Beijing, the government is lifting restrictions for license plates by making 100,000 extra plates available to the market. More than ten other cities in China are offering as much as \$1,400 cash subsidies for vehicle purchases to reignite the automotive industry. These examples could provide a blueprint for North America and suggest that a potential stimulus for the U.S. automotive industry is likely to be needed to restore sales.

The last major slowdown to the automotive industry in the U.S. was the financial crisis in 2008 and 2009. The sector has recovered and redoubled its efforts to streamline the supply chain to weather a recession. However, COVID-19 has put tremendous stress on the system that cannot be sustained. OEMs, such as Ford, General Motors and Fiat Chrysler Automobiles Group, and smaller Tier I and Tier II suppliers will need a clear path and visibility to return to run-rate SAAR volumes to remain viable businesses and ultimately, attract investor interest during the “new normal.”

Uncertainty regarding the duration and depth of the economic downturn and the shape of the recovery will tell the story of the stress and destruction done to car manufacturing and automotive financing companies.

[Actions of foreign governments] could provide a blueprint for North America and suggest that a potential stimulus for the U.S. automotive industry is likely to be needed to restore sales.

OEMs... and smaller Tier I and Tier II suppliers will need a clear path and visibility to return to run-rate SAAR volumes to remain viable businesses and ultimately, attract investor interest during the “new normal.”

LINCOLN INSIGHTS FOR AUTOMOTIVE SUPPLY CHAIN TO SUSTAIN THROUGH THE IMPACT OF COVID-19

- 1** | **Safety First:** Health and safety of employees and customers come first. Ensure that your business is prepared before OEMs restart production. Implement temperature checks, secure personal protective equipment, modify manufacturing workflow for social distancing measures, institute daily surveys for employees to assess risk and above all, err on the side of caution. Doing so helps keep plant operations humming.
- 2** | **Non-Automotive Revenue Opportunity:** Many businesses have completely halted production and there are no employees on the manufacturing floor. These austerity measures are universal but cannot be sustained indefinitely. Some businesses have found creative ways to generate revenue, position themselves as “essential businesses” and to keep employees busy including manufacturing ventilators, face shields, hospital gowns and other personal protective equipment.
- 3** | **Secure Liquidity:** Continue dialogue with lenders and shareholders to maintain access to capital. Steep declines in revenue and shrinking working capital balances will increase the demand for cash to restart operations as businesses bring back employees and purchase materials to meet demand from OEM partners when volumes return.
- 4** | **Prepare for a Future Sale Process:** Closely monitor the financial impact of COVID-19 on the business. Key categories include one-time revenue impacts, sales backlog and pipeline, pricing and margin analysis, capital expenditures (investments and deferrals) and working capital dynamics.
- 5** | **Pursue Add-on Acquisitions and Joint Ventures:** Strategic partnerships and investments are attractive methods to fortify and grow businesses. Some automotive suppliers will not survive, but some businesses will emerge with the strength and vision to scale through acquisitions. Financing will be a critical differentiating factor that will enable investors and shareholders to aggressively pursue add-on acquisitions.

For other perspectives, visit us at www.lincolninternational.com/perspectives.

Interested in learning more? Get to know Lincoln International’s automotive & truck professionals at www.lincolninternational.com/automotive-truck.