

**automechanika**

**DUBAI**

19-21 October 2020

**automechanika**

**RIYADH**

2021

## Webinar Recommendations

- Access the webinar from a laptop/desktop for optimal experience
- Chrome, Firefox and Opera are the recommended browsers for Livestorm
- Have a stable high-speed internet connection for a better experience
- Chat/questions/polls sections can be found to the right of the presentation area

Automechanika Dubai Webinars  
Presents:

**Impact of COVID-19 on the Global  
Automotive Aftermarket Industry**

# Agenda

- Presentations by
  - Abdelrahman Kurdieh | Messe Frankfurt Middle East  
Project Manager – Automechanika Jeddah + Riyadh  
Automechanika Dubai + Jeddah + Riyadh
  - Vishal Sanghavi | Aranca  
Senior Manager – Business Research & Advisory  
Impact of COVID-19 on Global Auto Industry & Aftermarket
  
- Q&A Session

# Automechanika Dubai

## 2019 Show Statistics

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**32,720**

Trade Visitors from



**141**

Countries



**53%**

International



**1,880**

Exhibitors from



**63**

Countries



**92%**

International

# Automechanika Riyadh 2020

## ▪ Exhibitors

- 87 exhibitors from 13 countries
- 52 exhibitors from 11 countries (Covid-19)
- Country Pavilions: Turkey, USA, South Korea, China, Hong Kong, Taiwan

## ▪ Visitors

- 2,470 visitors

## ▪ COVID-19 Effect

- Lost 25 exhibitors due to travel restrictions
- Rolled over China, Hong Kong and Taiwan to 2021

**19<sup>th</sup> May 2020**

# **Impact of COVID-19 on Global Auto Industry & Aftermarket**

**Automechanika Dubai Webinar**

# Topics for the day...

## **Auto Industry in the Grip of COVID-19**

Impact on the Ecosystem

## **The Recovery Curve**

Lessons from China, Expected Recovery in Key Countries

## **The New Normal**

Post-COVID World: Knowns and Unknowns





# Auto Industry in the Grip of COVID-19

Impact on the Ecosystem

## The Recovery Curve

Lessons from China, Expected Recovery in Key Countries

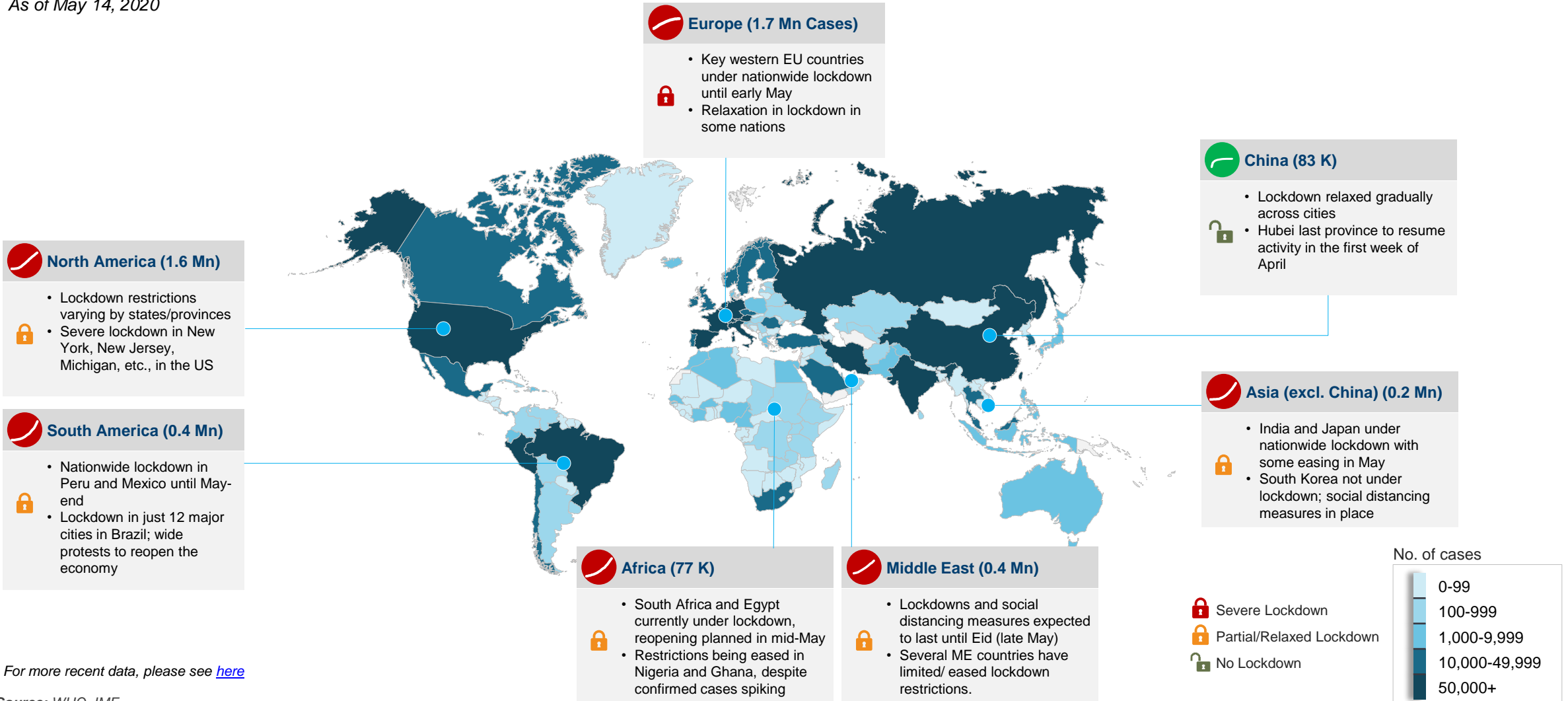
## The New Normal

Post-COVID World: Knowns and Unknowns



# COVID-19 Situation Globally: 139 days and Counting

As of May 14, 2020



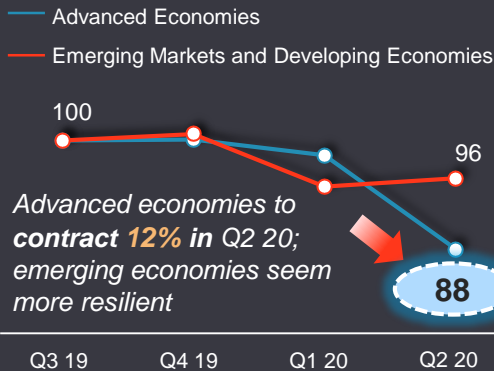
For more recent data, please see [here](#)

Source: WHO, IMF

# World Economy Plummet; Braces for Once-in-a-century Challenge

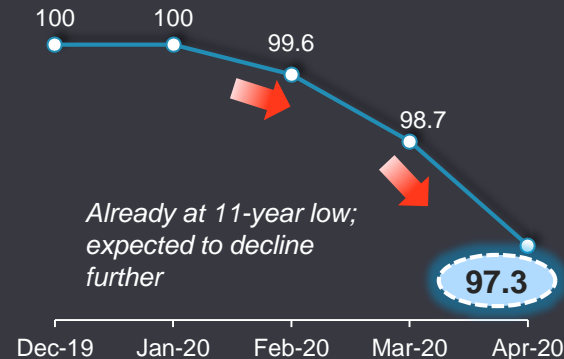
## SHRINKING ECONOMY

Real GDP Growth (Base = 100)



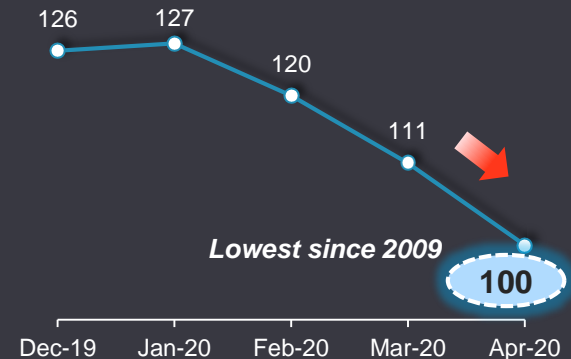
## LOW CONSUMER CONFIDENCE

Consumer Confidence Index (Base = 100)



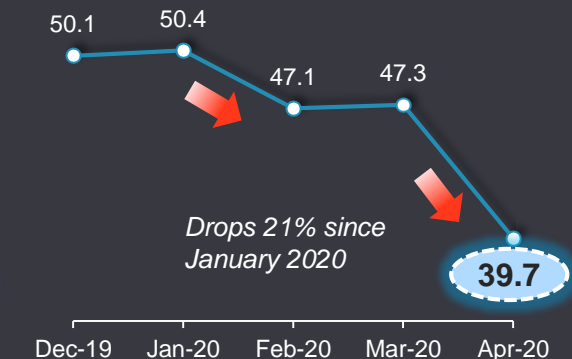
## CONTRACTING IPI

Global Industrial Production (Base: 2005 = 100)



## DECLINING PMI

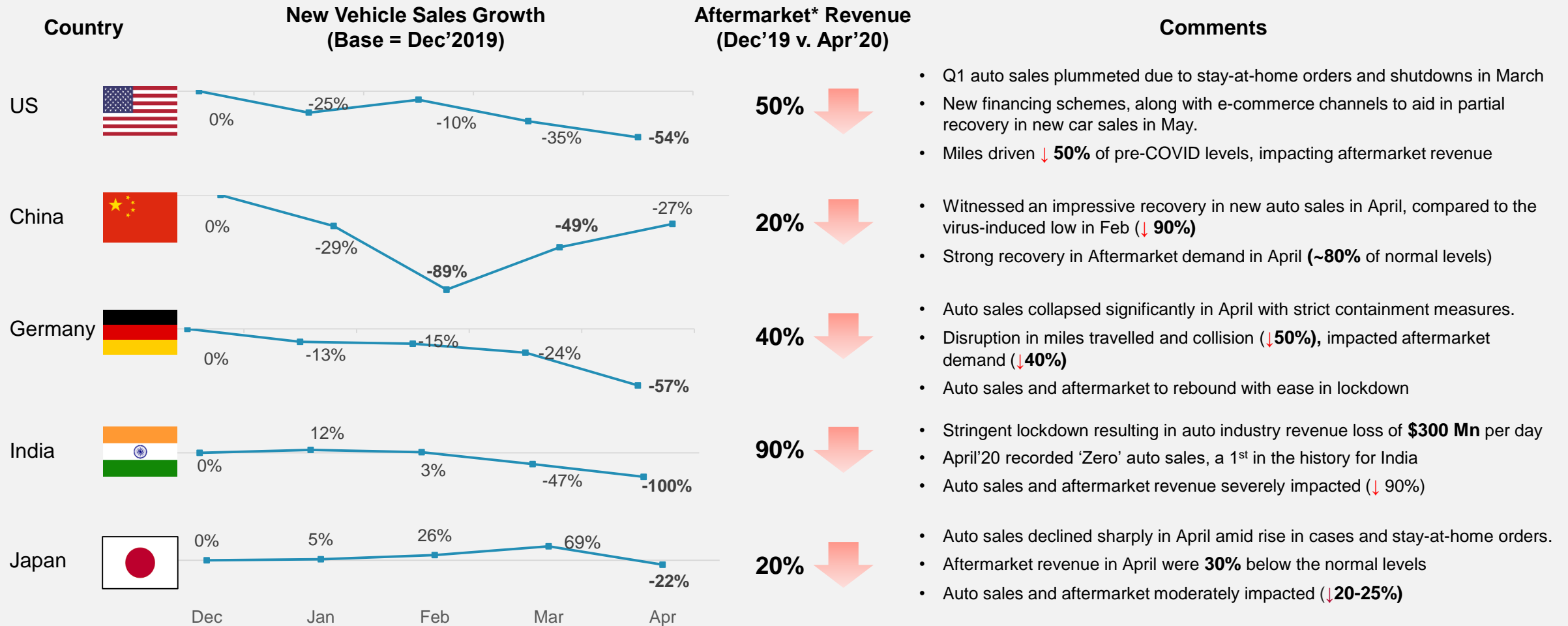
Global Manufacturing PMI



Source: OECD, IHS Markit, IMF

\* PMI : Purchase Manager's Index

# Top 5 Automotive Markets Globally – None Spared

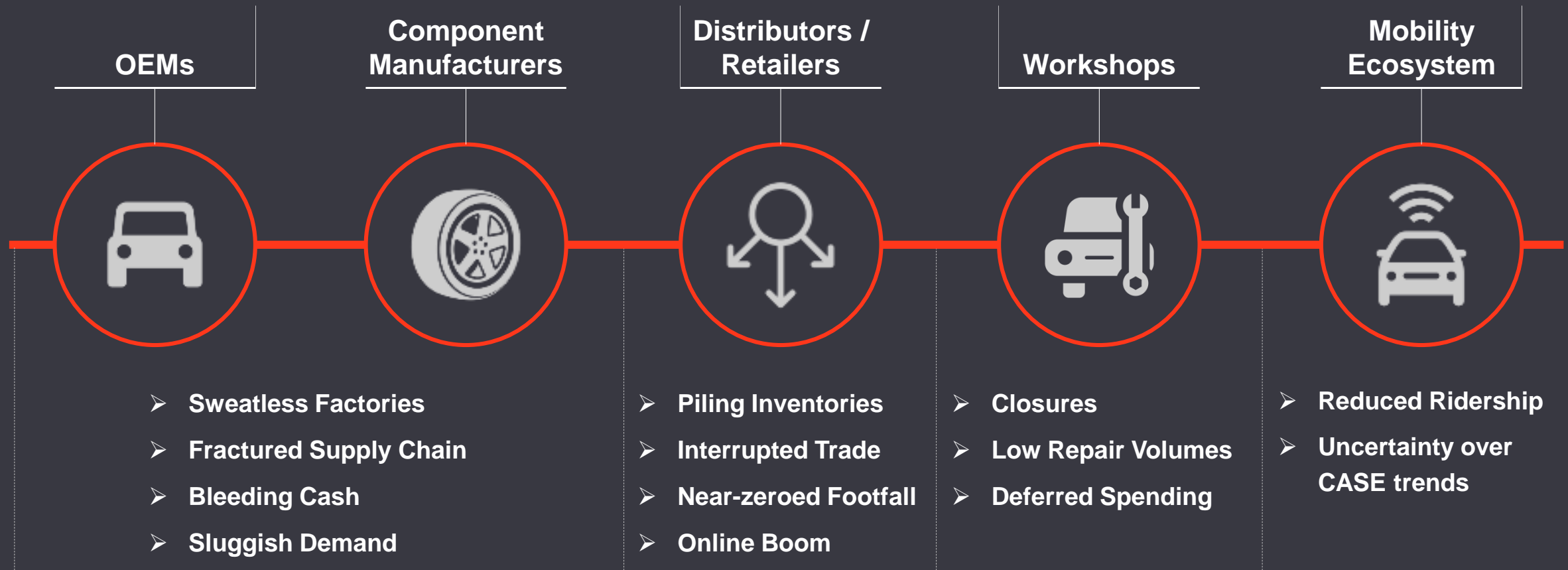


\*Includes revenues from auto parts sales, maintenance, collision repair, auto care, etc. ; \*\* Dec'19 Vs. Apr'20

Source: Marklines, News Articles, Primary Research, Aranca Analysis

Note: December new vehicle sales; Dec'19 Vs. Apr'20; Auto sales includes both PC and LCV segment

# Stakeholders Across Automotive Ecosystem Impacted Adversely



# Stay-at-home Orders Send Demand and Supply Shock Waves for OEMs

- **80%** of leading OEMs suffer **the hardest hit in February**, with China, the largest auto market, shutting down
- **90% of factories halt operations** between February and March, with the EU and US resorting to lockdowns...
  - ...of which **>40% plants resume production** as of May (*VW's 32/33 factories re-open in China*)
- **>70%** of top 30 OEMs **announce furloughs**, layoffs and pay cuts (*Toyota terminates 5000 temp staff, VW-2500*)
- **40%** of top 50 players **infuse cash** to maintain liquidity in financial system (*Ford, GM*)

## Toyota Reports Earnings, Forecasts 80% Drop in 2021 Profit

The Japanese automaker said they expected profit to drop to its lowest in nine years.

IW Staff

MAY 12, 2020

BUSINESS NEWS APRIL 10, 2020 / 1:00 AM / A MONTH AGO

## Volkswagen furloughs 1,500 workers at Tennessee auto plant starting April 11

David Sheppardson

April 08, 2020 01:39 PM

## Japan automakers cutting off pay to 32,000 North American workers

Toyota lays off 5,000 temps, postpones North American reopening

CHESTER DAWSON

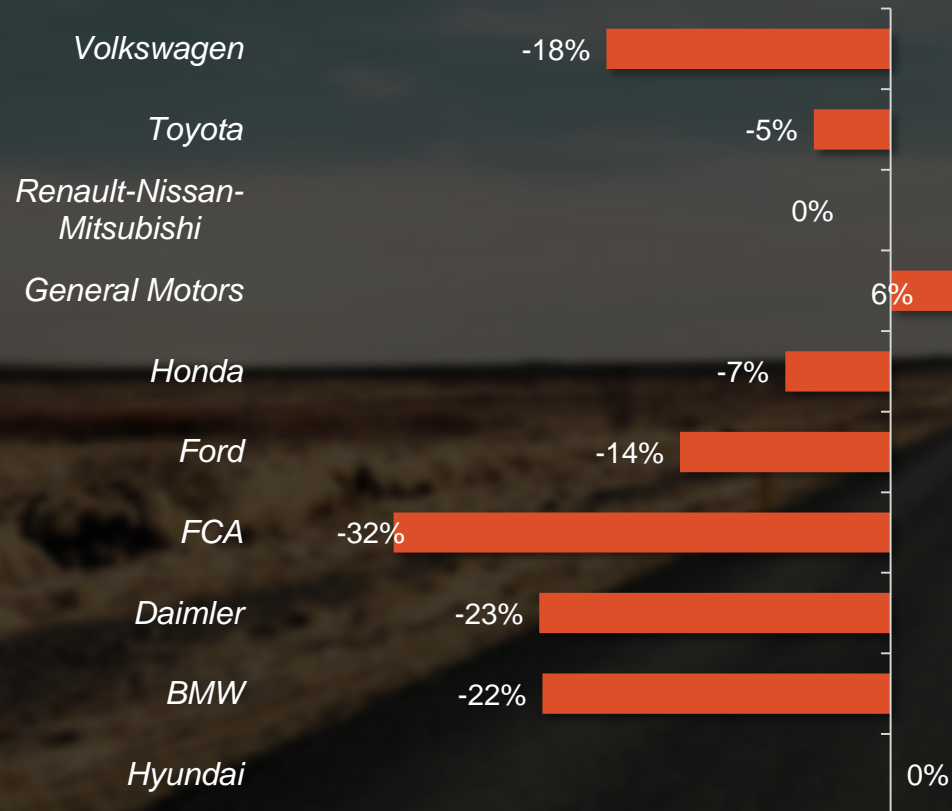
Bloomberg

Source: Annual Reports, Bloomberg, Autonews, Aranca Analysis

## Revenues Nosedive in Q1; Worst Yet to Come

### QoQ Revenue Decline for Q1 20

Q1'20 | Figures in Percentage



- Decline largely led by China (January–February) and EU (mid-March onward); full effect of EU, US in Q2
- Despite relaxation in lockdown (for instance, in China), demand to pick up gradually within 2–3 months
- Most players injecting liquidity to stabilize financial position (GM and Ford withdraw \$21.6B and \$23B, respectively, from various revolving credit facilities)
- At their current cash burn rate, many OEMs likely to face liquidity crunch in less than 2 months if lockdown persists (VW utilizes \$2B worth/week during end of March when 80% factories halt production)

Source: Annual Reports, Bloomberg, Aranca Analysis

## Tier 1 Suppliers: Headwinds in Pre-COVID-19 Period...

### WEAKENING EBIT MARGINS

Constant pressure from OEMs squeeze median margins of top 50 suppliers to half

**11% to 6%** Over the last 10 years

### POOR CASH RESERVES

Marginal improvement in Cash/Sales Ratio over the last decade

**7% to 8%** Over the last 10 years

### DETERIORATING VALUATION

Declining cash flow and increasing working capital impact supplier valuations

**5-7x to 4-5x** Over the last 10 years

### FIERCE COMPETITION

New low-cost suppliers continue to enter the market, offering competitive prices

**>400 new players** Over the last 3 years

### ONGOING CONSOLIDATION

Weak players exit market; cash rich buyers collaborate with distress suppliers

**>200 exits** Over the last 3 years

### EMERGING E-MOBILITY

Challenges posed by changing powertrain requirements; lesser parts further reduce R&M needs

**11% to 6%** Over the last 10 years



## ...Intensify

- **95% of factories halt operations** between February and March in response to regional lockdowns (*Denso halves global production as profit hits 11-year low*)
- **8–10% suppliers close operations** in April as slowdown chokes sales
- **>80% of top 30 suppliers announce furloughs**, layoffs and pay cuts (*Bosch cuts salaries by up to 20%, Magna lays off >1000 employees*)
- **>50% plants resume production** as of May (*75% plants operational in China, 40% in the EU, US*)
- **40%** of top 50 players witness a smaller decline in aftermarket sales (*Continental's Q1 OE sales drop by 25% and aftermarket, 16%*)

### Denso cuts global production by 50% on virus, FY profit hits 11-year low

Reuters | 16d

TOKYO (Reuters) - Japanese auto parts maker Denso Corp (6902.T) said on Thursday it has slashed global production by around 50% due to the coronavirus, adding its supply chain could be affected in the coming months if the outbreak is prolonged.

Naomi Tajitsu

### Magna cuts production, 2,000 local staff amid fallout from COVID-19

Norman De Bono

March 21, 2020 • 2 minute read

### Tenneco to reduce second-quarter salary costs by 25%, including furloughs and pay cuts

Published: April 3, 2020 at 6:14 a.m. ET

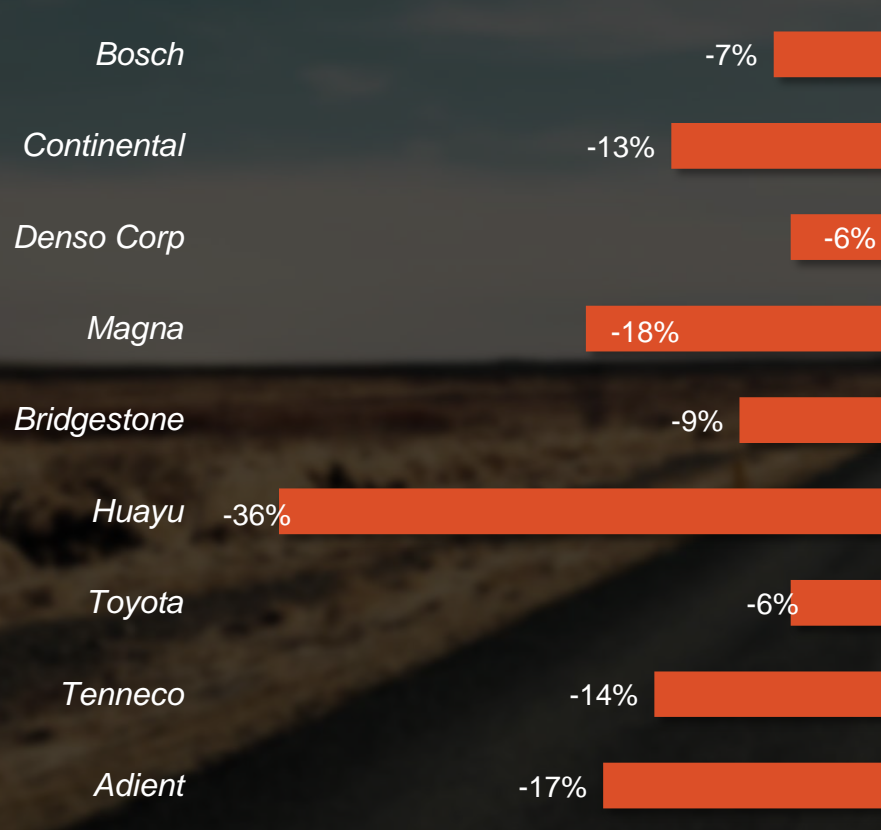
By Tomi Kilgore

Source: Bloomberg, CapIQ, Annual Reports, Press Releases, Aranca Analysis

## Significant Decline in Top Line in Q1; Players Brace Up for a Tough Q2

### QoQ Revenue Decline for Q1'20

Q1'20 | Figures in Percentage



- Full blown impact on Chinese players in Q1 due to early lockdowns; further drop expected in Q2 sales for EU, US
- Steeper declines in OE sales versus aftermarket (Continental: 25% versus 16%; Valeo: 8% versus 2%)
- Manufacturers utilizing short-term credit facilities to bolster cash reserves (Adient and Magna borrow \$825M and \$700M, respectively, from existing lines of credit)
- Cash-rich Continental, Magna would sustain the blow; suppliers high in debt likely to be forced to take drastic measures such as bankruptcy, business withdrawals

Source: Marklines, Desk Research, Aranca Analysis

# Showrooms See Massive Decline in Footfall; Online Commerce Sees a Silver Lining



## US

- Leading car dealers such as Autonation and part distributors such as O'Reilly witness near-zero footfall; April revenues down by ~37% YoY
- E-commerce specialists such as US Auto Parts see boom in online activity; sales in April alone up over 40% QoQ compared to Q2, despite miles driven down 50%



## CHINA

- About 50–60% YoY decline in sales of car dealers (Pang Da Automobile and China ZhengTong) vis-à-vis the peak recorded in February
- Retailers and distributors report ~40% drop in sales in February as lockdown increased
- Recovery noticed March onward, with auto part sales in April 2020 at 85% of sales recorded in the same period in 2019



## GERMANY

- Automotive dealers report 30–40% drop in new car sales in March–April
- Tire E-commerce Specialist Delticom reports ~15.4% fewer PC tires in Q1 20
- OEMs (Toyota, Hyundai) offer financial support to dealers facing a cash tie-up of more than EUR 10B due to piling inventory



## INDIA

- Unsold inventory the biggest worry for automotive dealers (planned implementation of BS6 from April 24th)
- BS4 vehicles worth USD 84Mn unsold in India, with 12,000+ dealers shut in states under lockdown
- About 8–10% auto dealers expected to face closure in the next 6 months
- Acute supply shortage of parts from China hits part dealers such as Rane, facing a decline of >30% in March–April



## JAPAN

- Car dealers record peak decline in March–April, with sales down >60%
- Online sales of parts growing at >50% MoM

Source: Annual Reports, News Articles, Aranca Analysis

# Although Deemed Essential, Workshops Face Closures



## US

- Despite classified as 'essential', revenues of auto repair shops down by ~70%
- Nearly 15–20% of collision repair shops voluntarily closed amid low demand
- About 90–95% of car care shops open but business down by ~80%
- Repair shops in New York, California and Massachusetts affected the most



## CHINA

- Almost 90% of the 450K workshops closed in February; most re-open in April
- Service revenue of 4S workshops at 70% of pre-COVID levels in April (were ~10% levels in February)
- Aggressive promotions by 4S shops in March to increase customer footprints
- Post-lockdown packages (car wash + battery power + sterilization + oil change) in high demand



## GERMANY

- Amid lockdown, ~80% of IAM shops shut; others operate at 50% levels
- By mid-April, 15% of closed shops resume operations
- Both OEM-owned and IAM workshops witness 80% drop in revenues in March compared to January, despite being allowed to remain open
- Repair shops in Berlin, Munich and Stuttgart majorly impacted owing to reduction in working hours and lesser appointments



## INDIA

- Auto garages forced to shut down under stringent lockdown measures until April 14th
- In second phase (effective April 15th), auto garages for trucks on highways exempted
- Revenues of operational shops drop over 90% in April
- Low demand prompts 95% of small chain garages to remain closed voluntarily



## JAPAN

- Auto garages business were moderately impacted as they were allowed to operate under 'state of emergency' measures
- About 15–20% repair shops remain closed voluntarily by Mid-April
- By W1 of May, all the closed workshops were reopened
- Operational workshops are witnessing a drop of 10–20% in business
- Workshops in Tokyo, Nagoya, Osaka, and Kobe are affected the most

Source: Annual Reports, News Articles, Aranca Analysis

# Impact on Mobility Solutions Highest in Ride Sharing; Rest Remain on Track

## RIDE SHARING



Public-transit, ride hailing falls **70–90%** globally; carpooling players suspend services (*Lyft reports 75% y-o-y decline in rideshare rides in April, while global ridesharing business down by ~80%*)

## MICROMOBILITY



Micro mobility gaining traction as short distance commutes increase amid lockdowns (*Gotcha reports 25% increase in March, while Citi Bike records 67% growth in ridership*)

## E-MOBILITY



**Extended subsidies** in China and UK and **Stricter emission norms** in EU – strong growth drivers (*VW and GM's progress on EVs uninterrupted; no change in GM's production timings of 6 new EVs*)

## AUTONOMOUS DRIVING



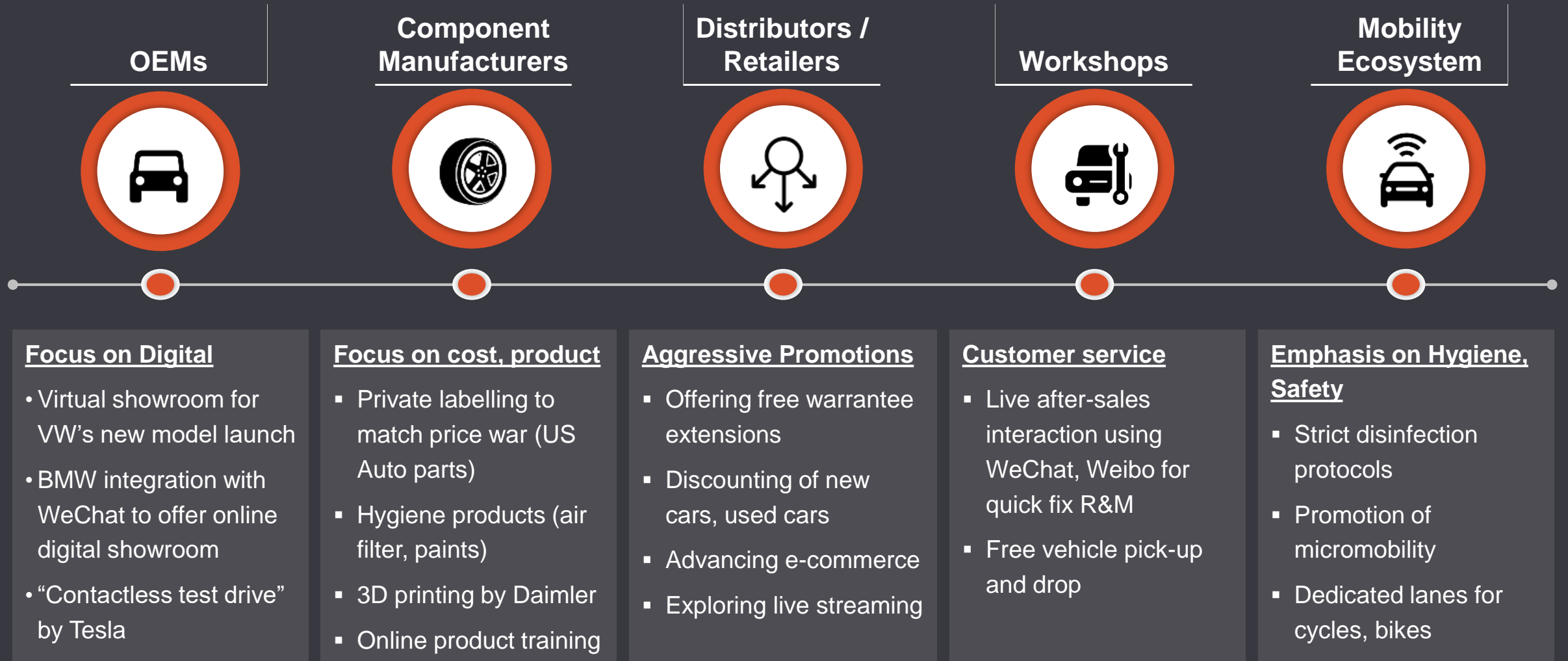
Moderate impact with investors **scaling** back funding and suspension of AV **testing**; however, sector remains well-positioned for long-term growth (*Ford postpones plans to launch autonomous vehicle services until 2022*)

## DIGITISATION



Strong boost to online shopping as consumers shop from home (*several OEMs and dealers launch online apps for new car sales with option of home delivery*)

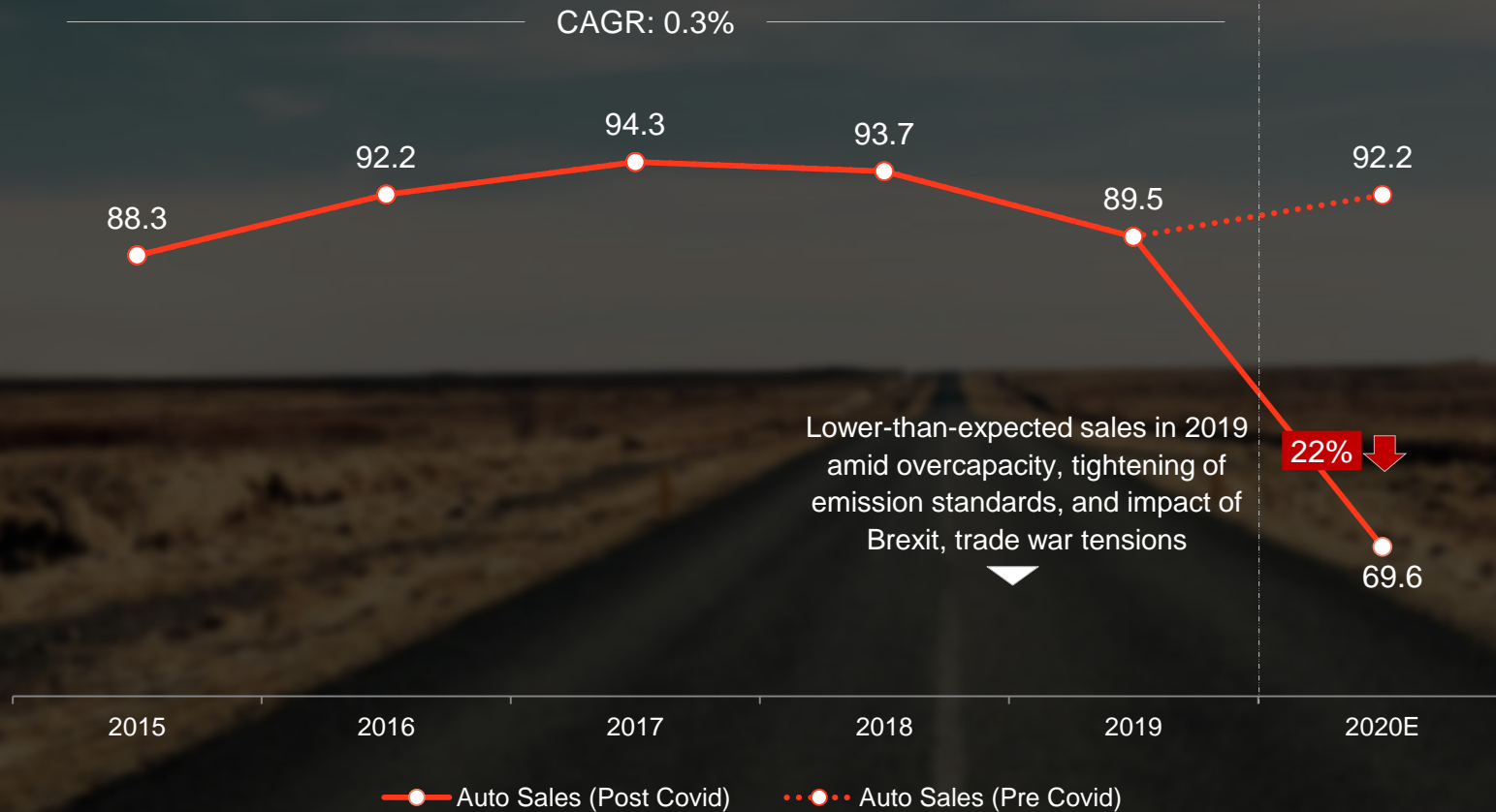
# Industry has Taken Dynamic Measures to Recover; Results not Conclusive yet



# Pandemic Expected to Reduce New Vehicle Sales by ~20 Mn Globally in 2020

## Global Light Vehicle Sales

2015–20E | Vehicle Sales in Mn units



- Slowdown in production worldwide: 26% ↓
- Hardest hit in February–April: >50%
- Recovery expected H2 20 onward
- Pace of recovery to be uneven: APAC to be more resilient among regions
- Economy cars to emerge stronger
- Government stimulus to boost recovery

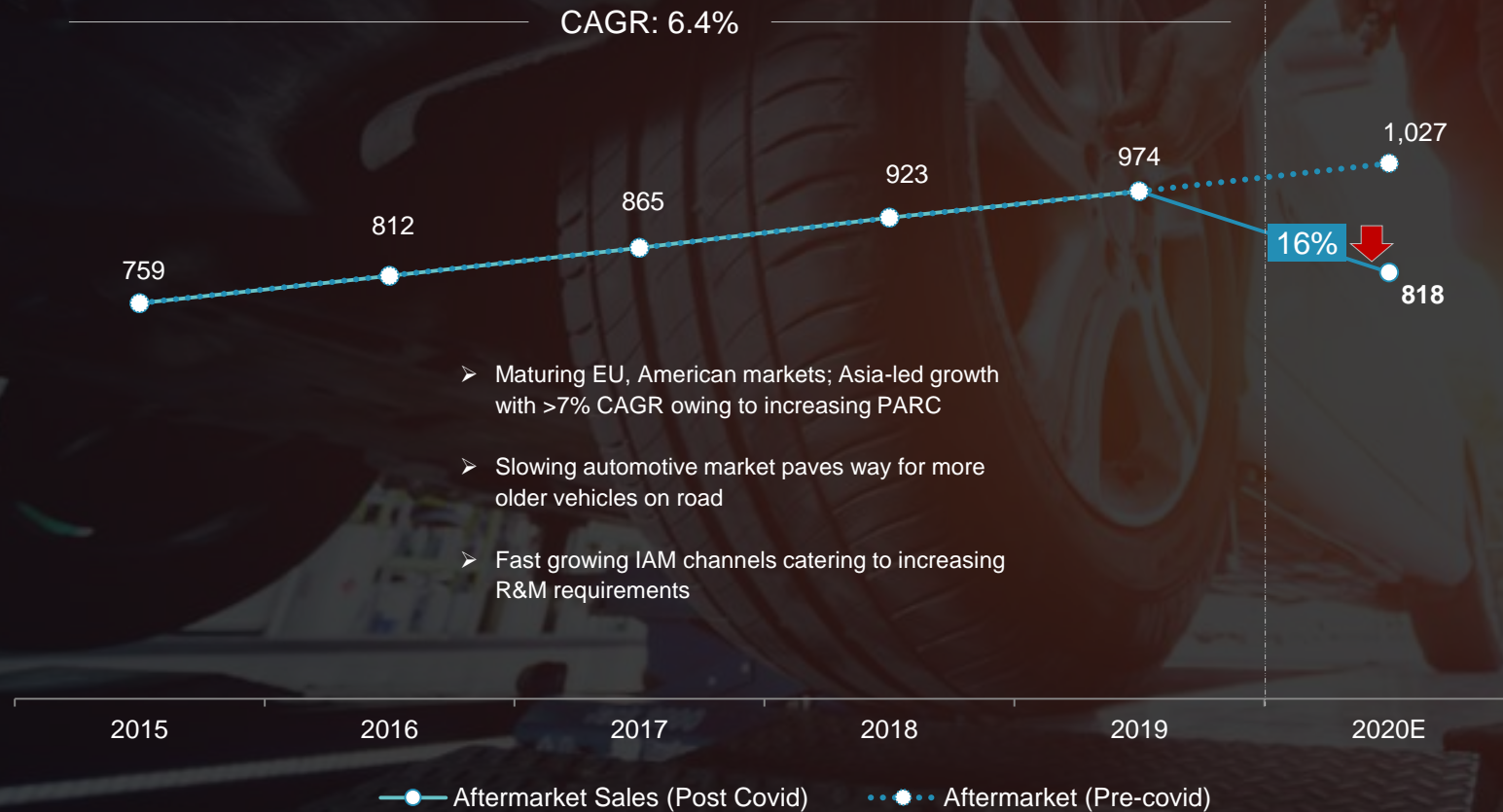
Note: Light Vehicles include passenger cars, pick-up vans, light duty trucks

Source: Marklines, Aranca Analysis

# Aftermarket Not to be Spared Either: We Expect ~16% Contraction in 2020

## Global Aftermarket Sales

2015–20E | Figures in USD Bn



- Impact significant but concentrated in Q1/Q2 20
- Customers to defer maintenance
- Miles travelled in H1 20 likely to drop 50%, resulting in fewer collisions
- Recovery in China, a positive; negative outlook for the US and EU
- IAM to emerge more resilient vis-à-vis OE channel
- Private transport to be preferred over shared/public – a key tailwind

Note: Market size includes revenues from parts and services

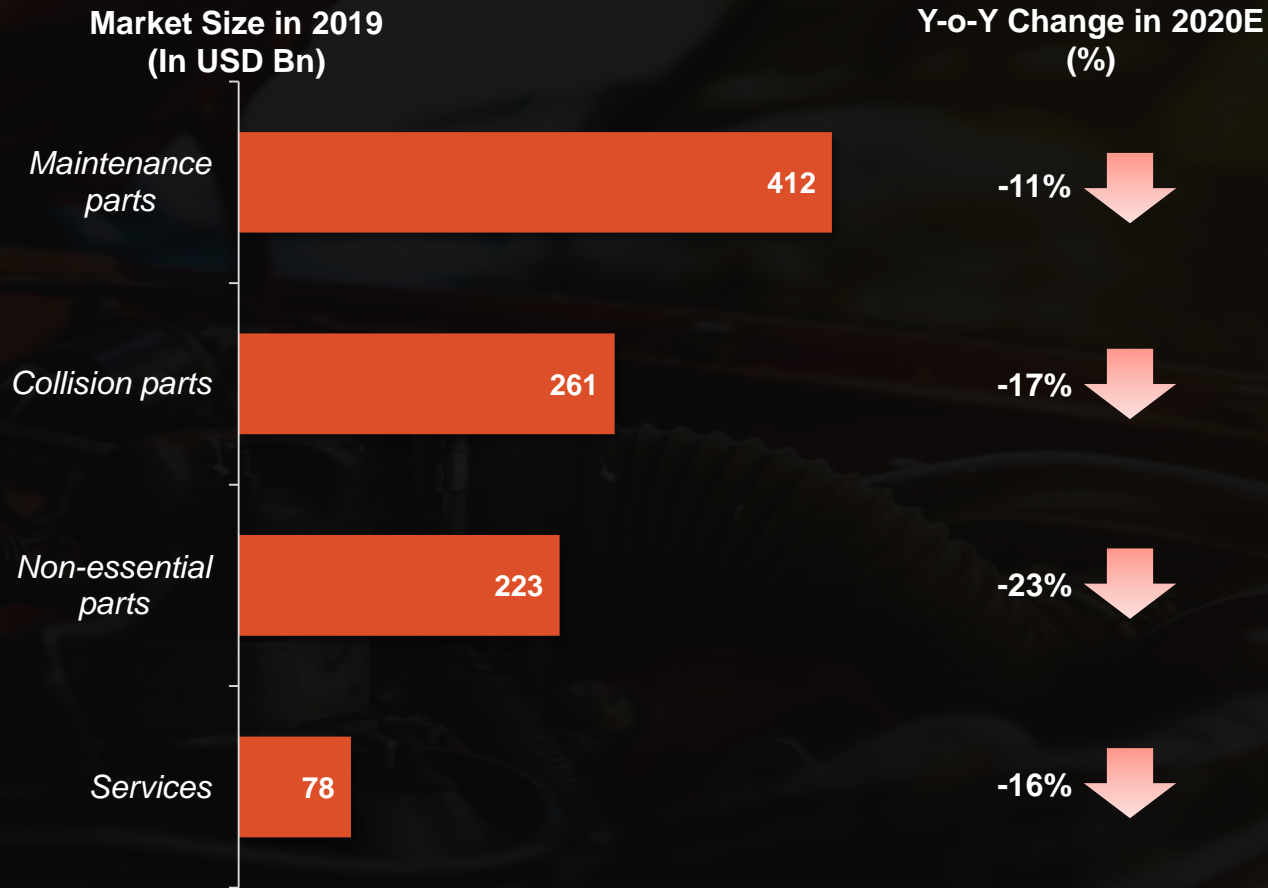
Source: Aranca Analysis



# All Aftermarket Segments to Feel the Heat

## Global Aftermarket Sales by Segment

2019 | Figures in USD Bn



- Lower impact on critical repair parts (e.g., transmission, engine, etc.)
- Significant impact on non-critical repairs and accessories amid low disposable income
- Demand for collision parts to decline, considering the expected reduction in miles driven in key countries such as the US
- Demand for private label brands to grow as consumers become price-sensitive

Note: Maintenance parts include consumables and tires; collision parts include repair and break-fix parts; and non-essential parts include performance parts and other accessories, Services include R&M

Source: Primary Research, Aranca Analysis

# How has Covid-19 Stalled the Auto Industry?

Impact on the entire ecosystem

## The Recovery Curve

Lessons from China, Expected Recovery in Key Countries

## Defining the New Normal

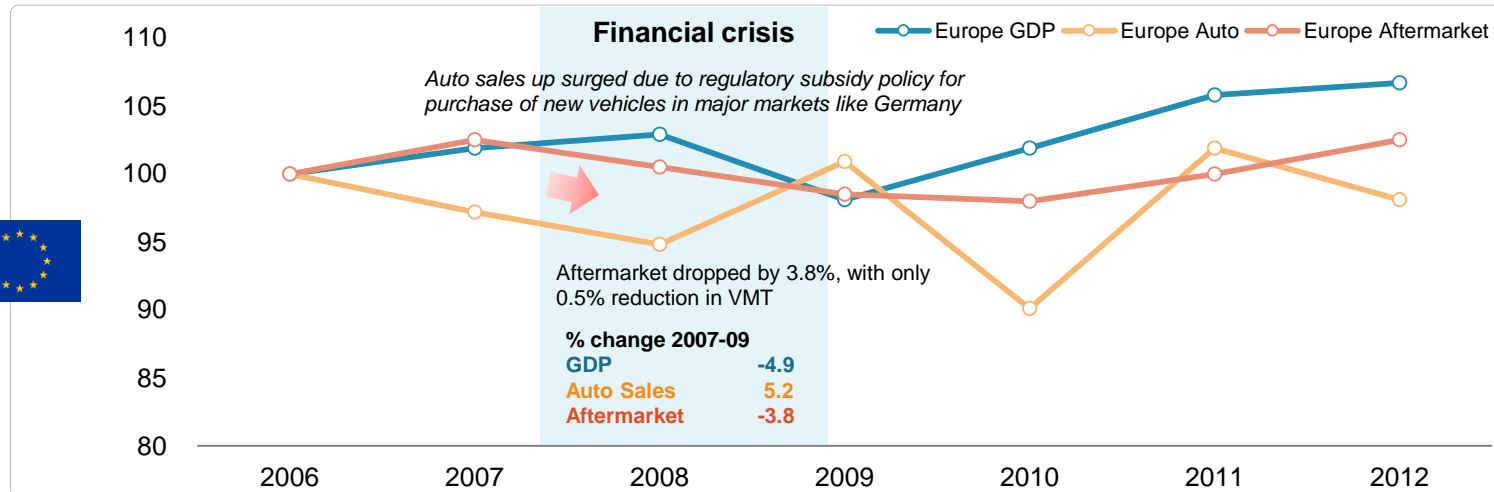
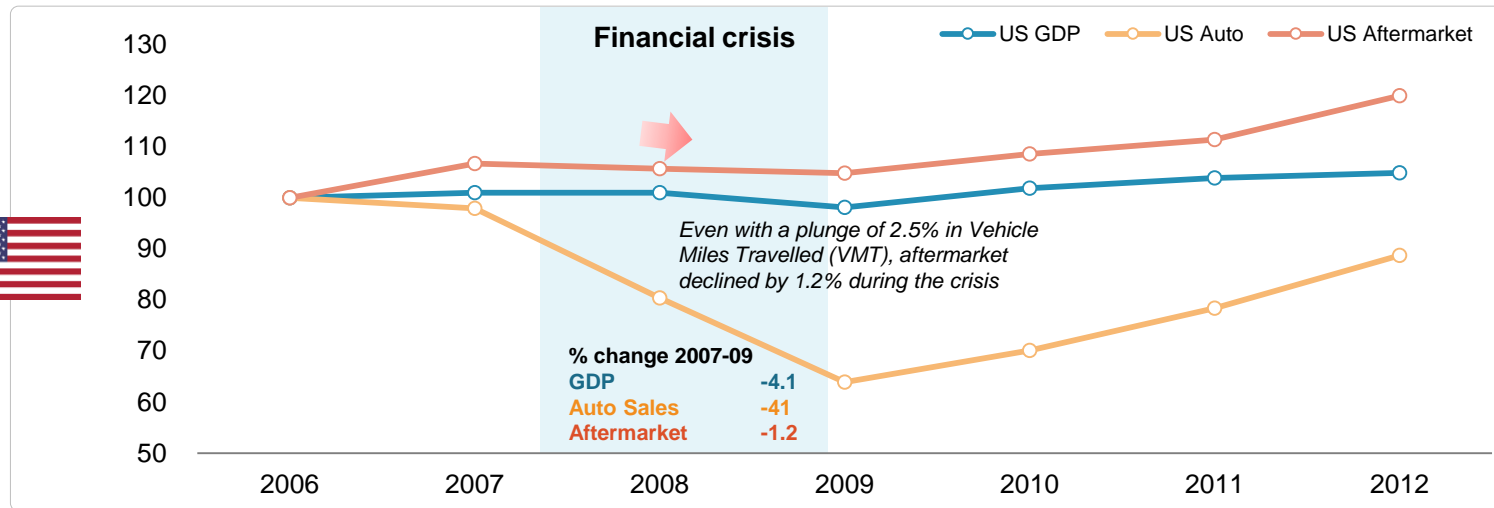
The Knowns and Unknowns in the post-COVID world





## Poll Question #1






























# Historically, Aftermarket More Resilient During Crisis



Aftermarket has typically been the **most resilient** part of the automotive industry, given its size and the fact that growth primarily **depends on the size of vehicle parc**, rather than new vehicle sales.

Source: IMF, McKinsey, IHS Markit, Auto Care Association, Aranca Analysis

# Several Factors will Determine the Recovery Curve in 2020

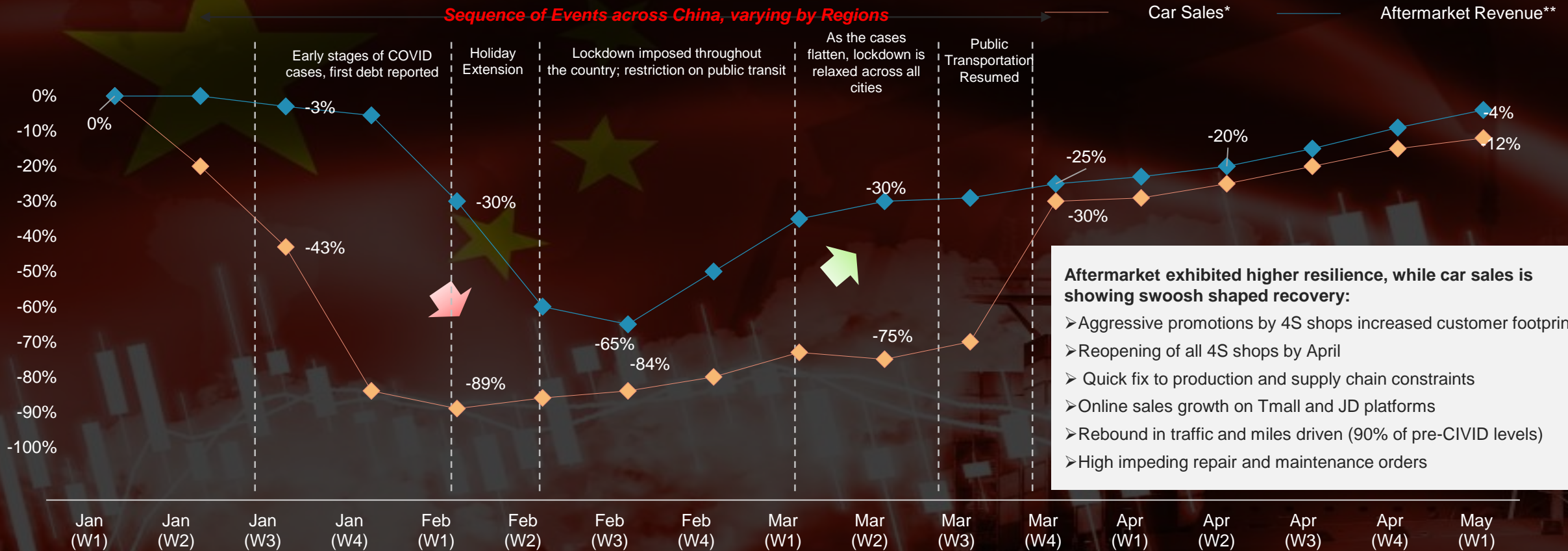
Parameters	Trends	Impact	 	 		Aranca Comments
Macro-economic	More people unemployed	-				20M job loss in the US, <0.5M in Germany, 5M in China, ~40 M in India, and <1M in Japan
	Stimulus Packages Announced	+				Government has introduced stimulus packages in the range of 10-20% of GDP for most economies
Market Characteristics	Reduced New Vehicle Sales	+				Highest decline in new vehicle sales expected in US, EU due to prolonged stay-at-home measures
	Increased Used Car Sales	+				Shift from new cars to used cars will drive the need for higher spend on R&M
Customer Behaviour	Weaker Consumer Spending	-				Willingness to spend on non-essential R&M will be deferred for heavily impacted economies
	Reduced Miles Driven	-				Major tech companies in US, EU announced continued WFH policies; 70% employees in Asia prefer working from office as lockdowns lift
	Preference to private over public vehicles	+				Increase in preference for personal vehicle to drive maintenance/repairs requirements. Expected increase in car ownership in China, India to boost the trend
	Reduced Tourism	-				Domestic and international tourism to remain mute in foreseeable future

 Intensity of impact

Source: Aranca Analysis

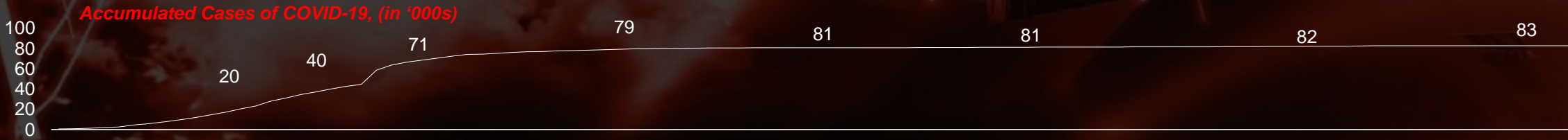
# Learnings from China Indicate Sharp Rebound Once Lockdown Ends

Sequence of Events across China, varying by Regions



**Aftermarket exhibited higher resilience, while car sales is showing swoosh shaped recovery:**

- Aggressive promotions by 4S shops increased customer footprints
- Reopening of all 4S shops by April
- Quick fix to production and supply chain constraints
- Online sales growth on Tmall and JD platforms
- Rebound in traffic and miles driven (90% of pre-COVID levels)
- High impeding repair and maintenance orders

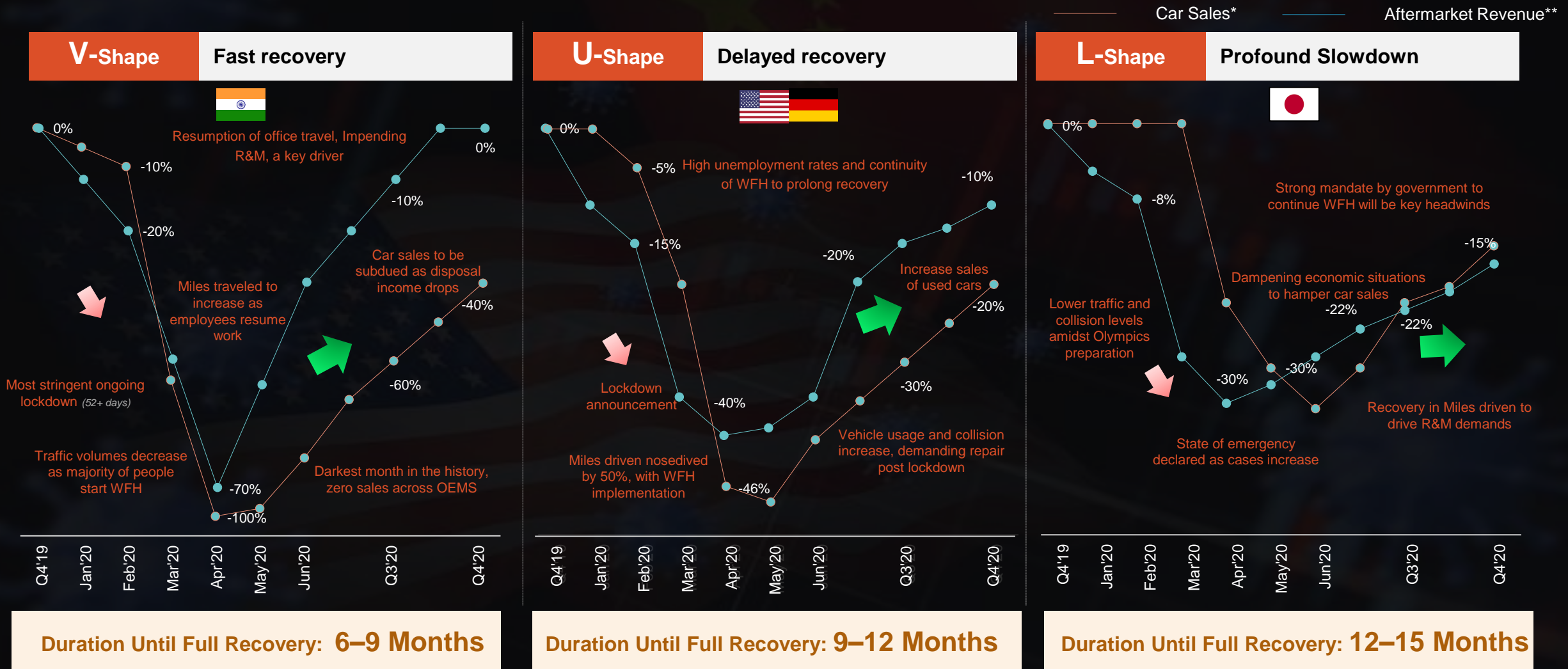


Source: Marklines, News Articles, Aranca Analysis

\*Light vehicles include passenger cars, pick-up vans, light duty trucks.

\*\*Aftermarket includes revenues from parts and services.

# However, Course to Recovery Likely to Differ Globally



**Duration Until Full Recovery: 6–9 Months**

**Duration Until Full Recovery: 9–12 Months**

**Duration Until Full Recovery: 12–15 Months**

Source: Marklines, News Articles, Aranca Analysis

\*Light vehicles include passenger cars, pick-up vans, light duty trucks.

\*\*Aftermarket includes revenues from parts and services.

Topics for the day...

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Impact on the Ecosystem

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## The New Normal

Post-COVID World: Knowns and Unknowns





# What Lies Ahead in a Post-COVID World?

## Known-Knowns

- Prominence of Virtual Showrooms
- Rise of Auto E-Retailing
- M&A Intensification
- Demand for Aftermarket Hygiene Products
- Contactless Delivery for Cars and Spare Parts (Drones)
- Direct Selling (Tesla Way)

## Unknown Knowns – The ones that should exist, but do they?

- Contactless Manufacturing
- Infection resistant surfaces

## Known Unknowns – The Inevitable, by when?

- Subscription based Model in Emerging Economies
- 3D-Printing of Auto Parts
- Micro mobility
- Usage based Insurance
- Digital Vehicle Service and Assistance
- Mobile Vehicle Servicing

## Unknown Unknowns

??

# A Few Must Do's for Auto Leaders & How can Aranca Help?

## Priorities for 2020

1. Monitor the impact of COVID on the economy and industry
2. Refine strategy to reflect the impact of COVID-19
3. Identify new opportunities in the wake of New Normal
4. Diversify supply chain and vendors to different geographies
5. Track competitors/customers response to COVID-19
6. Scout for value-buys to earn higher returns on investments

## Our Service Offerings

### Covid19 Dashboard

*New vehicle sales, miles driven, aftermarket revenue, fuel consumption*



### Scenario Planning

*V-shape, U-shape, L-shape recovery scenarios in the market you operate*



### Assessment of Adjacencies

*Virtual showrooms, e-commerce, technology/innovation, automation, AI*



### Vendor Assessment

*Supply chain diversification, vendor due diligence and assessment*



### Customer/Competition Tracking

*Track change in customer behavior and competitor responses*



### Target Identification and M&A Assessment

*Deal assessment, target benchmarking, profiling*



# Thank you for Joining the Webinar Today


For more information, please write to:



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