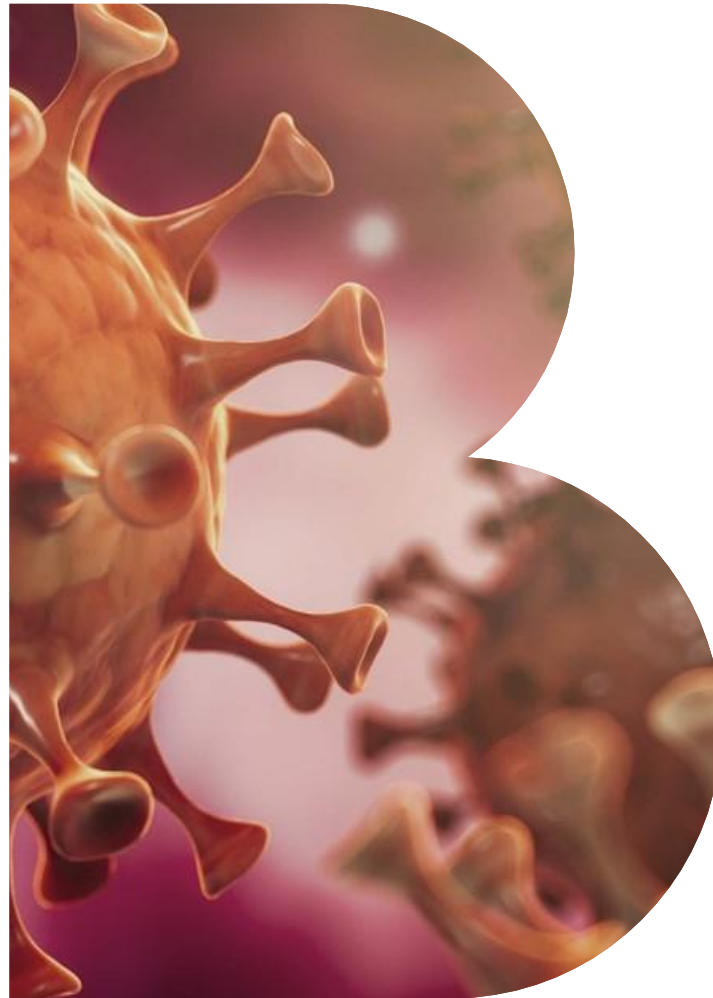


COVID-19 – The Automotive Independent Aftermarket (IAM) opportunity

European perspective



Roland Berger



COVID-19 is spreading across Europe, putting **economic activities on hold** and creating **extreme volatility** as an initial shock

Borders are being closed

All major OEM plants across Europe have **shut down** production

Crude oil price is at a 17 year low, down since beginning of January

Unemployment rates may rise by **1.6%** points in developed countries¹⁾

Euro area GDP may decline up to **22%** in Q2/2020¹⁾

Public life is standing still – Introduction of rules for social distancing and business close-downs

Equity markets²⁾ have entered

into **bear territory**

64%

1.6%

22%

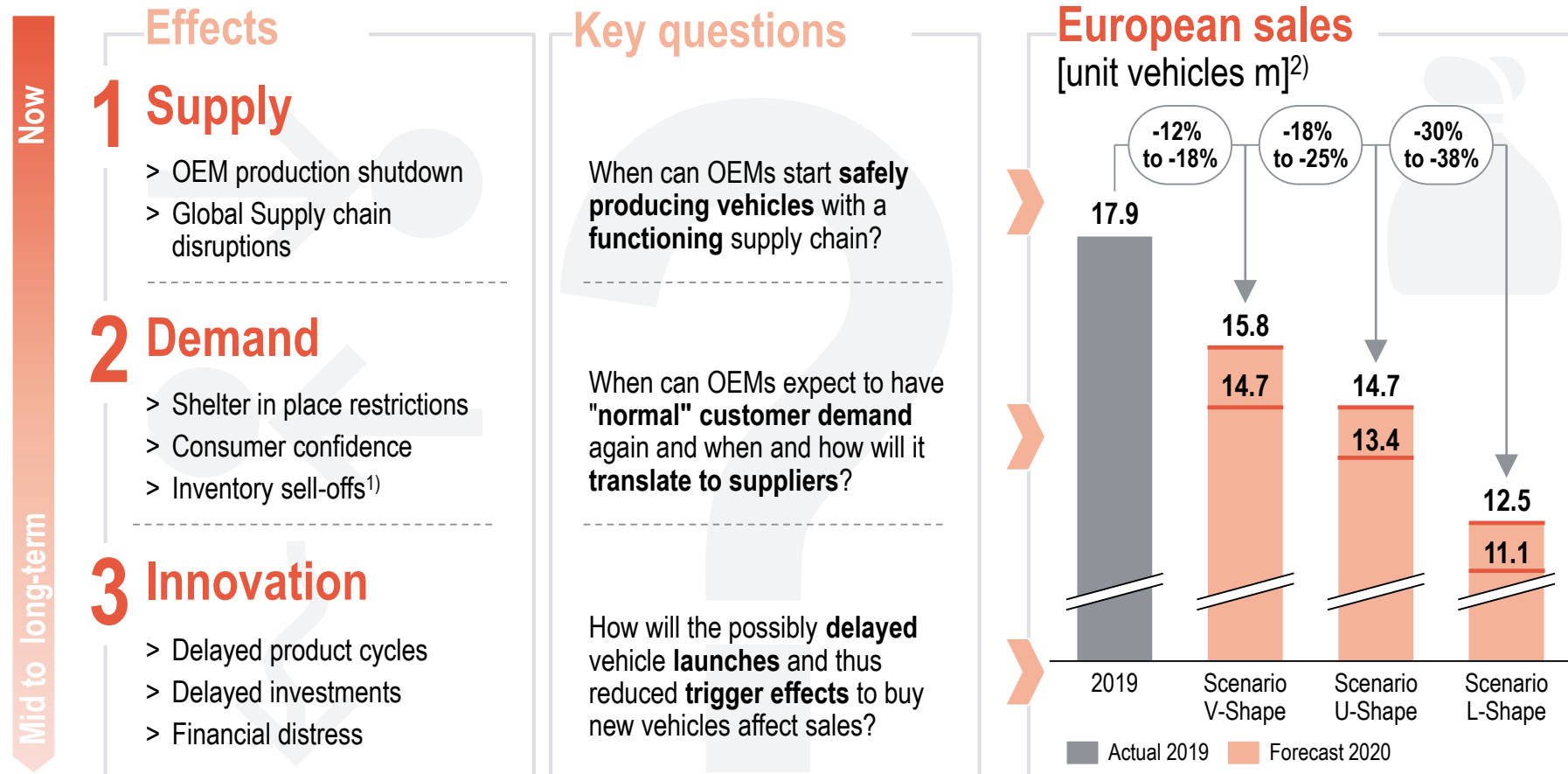
MSCI World -32%
Euro STOXX 50 -34%
DAX -35%

1) JP Morgan forecast as of March 20; 2) Closing prices taken from Capital IQ as of March 23, Indexed at 100 on February 19 (day with all time highs)

The automotive industry in Europe is expected to **witness significant volume reduction in 2020** driven by three key effects

COVID-19 effect on European light vehicle sales

Status as of March 27, 2020 



1) Reduction of inventories by OEMs and distributors will further delay demand picking up again

2) Light vehicles in EU28+EFTA (incl. UK, excl. Liechtenstein), Numbers based on production forecast, indicative of sales forecast

However, can the "underdog" **IAM** emerge as a "white swan" of the automotive industry because of its overall relevant resilience?

COVID-19 hypotheses for the Automotive IAM



I Performance resilience: After the initial short-term demand shock, the older car parc driven IAM has been insulated from the sudden effect of new cars' lost sales in similar crisis historically

II Structural change: The ongoing structural changes in the IAM in Europe will be significantly accelerated – providing opportunities for the vigilant and financially strong aftermarket players to get more market access and define the new rules of the game

III Supply chain reset: GLOCAL will become the new GLOBAL, with aftermarket players having access to their local OE sister-divisions' production facilities more prepared for agile order fulfillment

IV Digital disruption: Digitalization will rapidly transcend from being a 'to-be' state into a reality of doing business – both in terms of client access as well as ensuring an air-tight supply chain

Not focus of current document



Although short-term demand will drop, **IAM GVA is expected to marginally reduce vs. historic levels** in the normalization period

Key impact factors on annual IAM GVA – overview

Status as of April 01, 2020



	Shutdown period	Recovery period	Normalization period	
1 Market size	Car parc	⊖	⊖	⊖
	Age group relevant for IAM	⊕	⊕	⊕
	Mileage (incl. substitution of public transport)	⊖	⊖ ⊕	⊖
	Total	⊖	⊖	⊖
2 End-customer spending	Spending power	⊖	⊖	⊖
	Economic stimulus	⊖	⊕	⊖
	Willingness to spend (essential repair)	⊖ ⊕	⊖	⊕
	Willingness to spend (non-essential repair)	⊖	⊖	⊖
Total	⊖	⊖	⊖ ⊕	
3 Value chain and structure	Consolidation of customers (incl. pricing effect)	⊖ ⊕	⊖ ⊕	⊖
	Liquidity / solvency of customers	⊖	⊖	⊖
	Stock level	⊖	⊖	⊕
	Workshops availability	⊖	⊖	⊖
	Workshop density	⊖	⊖	⊖
Total	⊖	⊖	⊖	
Net impact on growth of GVA	⊖	⊖	⊖ ⊕	

Key takeaways

Car parc (Details on next page)

- > Overall level stays constant
- > Share of older and IAM relevant car parc will increase, leading to increase in demand

Mileage

- > Preference of private transport over shared modes will go up
- > But net effect will be constant because of lower mobility (driven by unemployment, etc.)

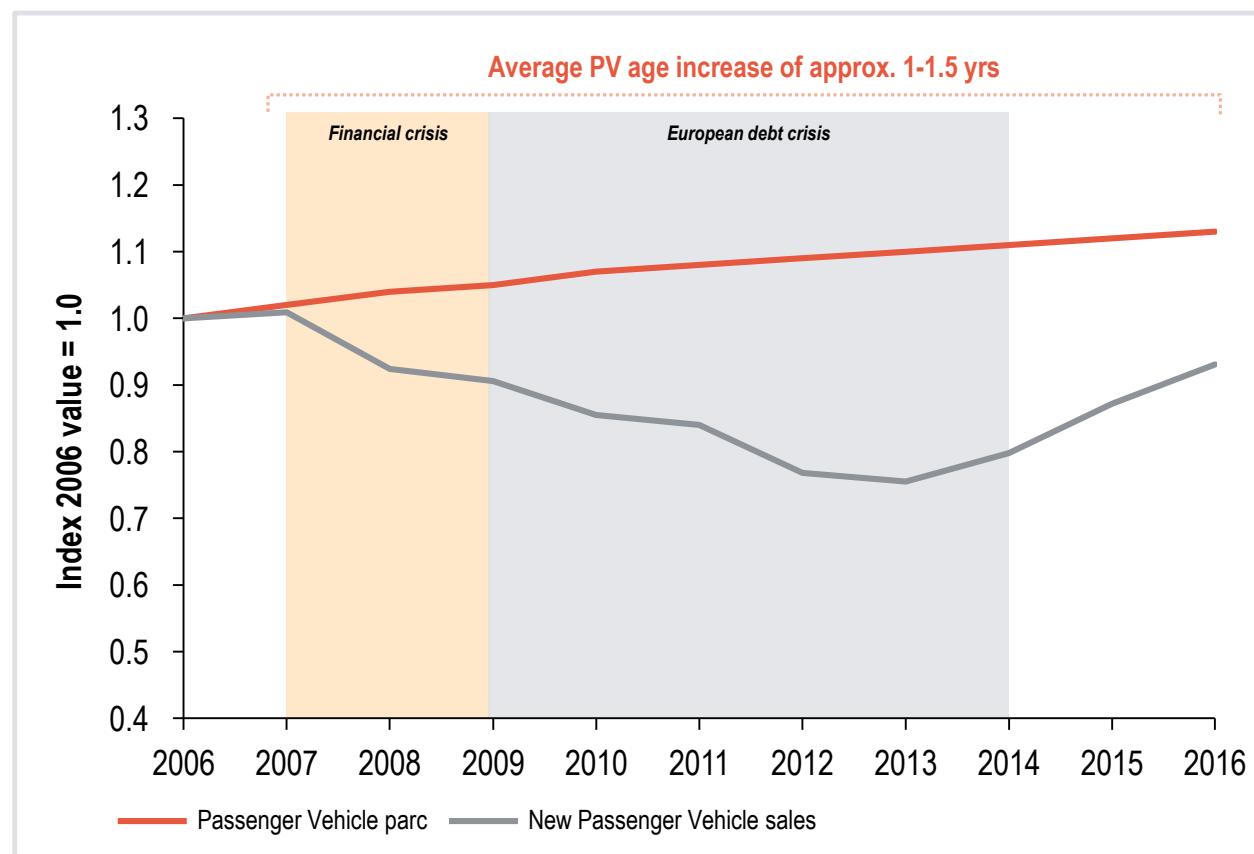
Willingness to spend

- > Most non-critical repairs/maintenance will be avoided / postponed as opposed to crash-repairs
- > Spend on non-essentials like upgradations, accessories and tuning will be probably avoided

Direction vs. Aftermarket global Base case 2020
 ⊕ Favorable ⊖ Negligible change ⊖ Unfavorable

As seen in the 2007-08 financial crisis and the European debt crisis, the **car parc is resistant to the negative impact of lost car sales**

New vehicle sales and car parc volumes (EU-28) [index 2006 = 1.0]



- > When plotting the development of new car sales versus the overall vehicle parc it becomes clear that the **vehicle parc is relatively resistant to economical shocks** because of scale effect
- > As new car sales drop the **average age of the vehicle parc increases**, which in turn is a positive impact on the IAM
- > Additionally, **economic disruptions** such as the 2007-2008 financial crisis might **have a higher impact on younger used car volumes (ages 0-3) than older used cars (ages 6+)** due to the combined effect of lower new car volumes and increased retention periods

Even though the Automotive IAM will face supply/demand effects, impact will be lower than on the overall automotive industry

Supply and demand effects exposure – Automotive vs. IAM

Status as of April 01, 2020



Exposure to supply effects



Exposure to demand effects



Overall risk



Automotive



> Highly integrated global supply chains make the automotive industry vulnerable to supply shock



> Huge exposure to consumer demand, as car purchases tend to be postponed in times of economic downturn
> Industry growth strongly depends on Chinese demand



IAM



> Supplier structure is exposed to risk of collapse in economic downturn due to breakdowns in tier-2 and tier-3 supplier structures
> Access to key parts required to maintain product range can become increasingly difficult if supply chains have not been highly integrated or have been arranged globally, the latter resulting in difficulties to obtain parts in case of transport restrictions
> Ability to source internally will be a key advantage for Aftermarket players, given the likely chance that plant capacities will be free for Aftermarket parts production



> As car purchases are expected to be postponed during economic downturns, usage of older vehicles will go up driving repair volume
> Increasing vehicle parc age and mileage (because of preference for own vehicle over public transportation due to fear of viral infection) will drive demand increase of aftermarket maintenance/repairs
> Parts suppliers with critical repair parts (e.g., transmission, engine, etc.) are expected to face lower impact than accessories parts suppliers
> In the short-term, parts wholesalers generated artificial demand increase to build buffer-stocks mitigating the risk of a broken supply-chain – however, post that the demand has dropped by up to 50% in lock-down countries



Very high exposure  Very low exposure 

The Aftermarket is expected to stay relatively resilient as compared to the overall automotive industry despite negative growth

Scenario overview

Status as of April 01, 2020 – Complete Automotive Aftermarket view



V-Shape:

Not likely anymore

Fast recovery

- Q1/2020 and beginning of Q2/2020 sales volume is nearly zero forecast due to reduced customer confidence
- Quick Ramp-up and recovery at the end of Q2/2020
- Global trade picks up quickly and automotive supply chains stabilize thereafter

U-Shape:

Delayed cure

- Significant decline in sales in Q1/2020 through the beginning of Q3/2020 due to nearly total decline in demand, component shortages and supply chain implications
- Full Ramp-up in Q4/2020 with recovery happening in FY2021
- Global trade stabilizes in Q4/2020 including automotive supply chains

L-Shape:

Profound recession / depression

- Disturbances in supply chains and production combined with turbulent and distressed financial markets lead to **extremely weak sales throughout 2020**
- No full ramp-up possible in 2020 due to continuous impact of COVID-19 on global supply chains and demand
- While global trade may stabilize earlier, macroeconomic impact of recession/ depression may be felt on the supply and demand side for a prolonged time-period

	2020		2021		2020		2021		2020		2021	
	(15-20%)	0-2%	(20-25%)	(5-10%)	(30-38%)	(20-25%)						
	(0-5%)	0-5%	(5-10%)	(0-5%)	(10-15%)	(5-10%)						

Based on the RB Aftermarket specific COVID-19 model

Expected production growth compared to 2019 (red numbers in brackets indicate decline) – Vehicle production
 Expected market growth compared to 2019 (red numbers in brackets indicate decline) – Aftermarket GVA

One of the most pronounced expected impacts in the IAM is the acceleration in the structural market changes in Europe

Pre-COVID IAM trends and impact of current developments

Preliminary hypotheses



Key Automotive IAM trends

Market structure

- > Increasing **consolidation and integration** (vertical and horizontal) is driving profit pool shift and reduction
- > Increasing relevance of **intermediaries** and losing relevance of selected stakeholders
- > Growing relevance of **life cycle management** and TCO optimization

Stakeholder needs

- > Need to **retain competitiveness** through lean operations and strategic pricing
- > Increasing need to **access to relevant customer data** to generate bespoke solutions
- > Need for specialized and technical knowledge to **stay up-to-date**

Competitor landscape

- > Increasing penetration of **OEMs** in the IAM with **new 'rules of the game'**
- > As Western targeting the growing Asian market, **Asian players are entering EU and the US**
- > Big players are moving towards **high-value added segments**
- > Players are increasingly focusing on **creating direct contact with workshops**
- > Despite multiple initiatives, **no 'winning' standalone e-commerce model** so far by suppliers

Technology

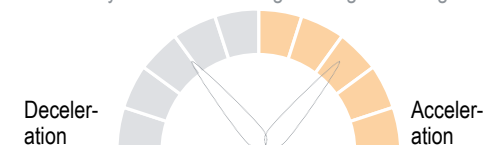
- > **Electricals / electronics driving future AM** growth
- > **Differential regional product strategy** needed considering regional maturity, parc structure & quality/price sensitivity
- > EV parc volume still sub-critical, but **showing readiness important for success**



COVID-19 impact



Can move into both directions depending on priorities defined by the EU / national gov'ts reg. CO2 targets



While short-term cashflow impact is inevitable, companies with a stronger finance backbone will emerge successful post crisis

Major IAM-specific impact factors on cashflow for IAM suppliers Status as of April 01, 2020



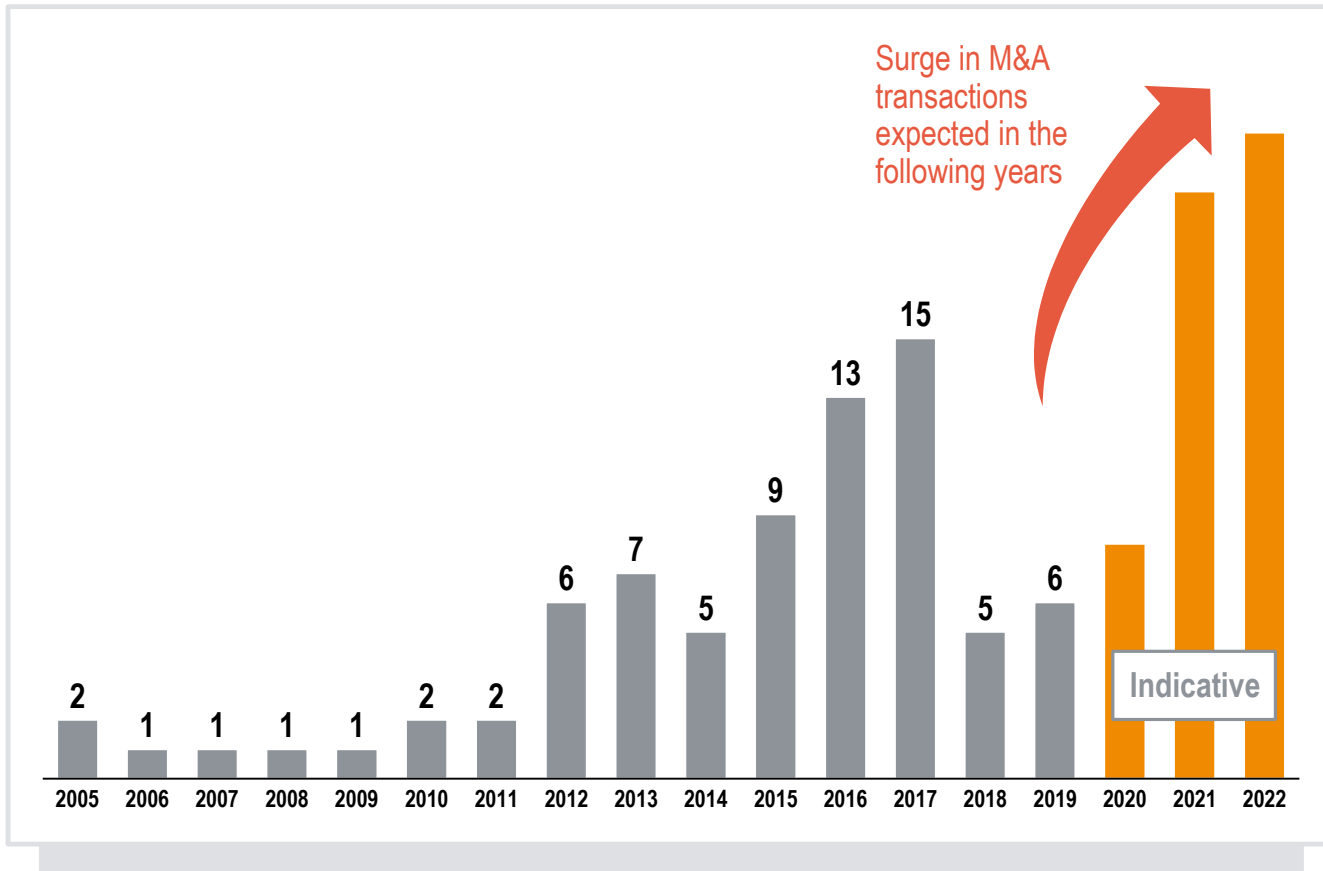
	Shutdown period	Recovery period	Normalization period	Net impact on cashflow	
1 Receivables	Customer (WDs) demand	⊖	⊖	⊕	<p>Shutdown period ⊖</p> <hr/> <p>Recovery period ⊖ ⊕</p> <hr/> <p>Normalization period ?</p> <p><i>Depends on the ability of companies to withstand shutdown/recovery periods</i></p>
	Customer credit rating	⊖	⊖	⊕	
	Payment terms	⊖	⊖	⊕	
	Risk of default receivables	⊖	⊖	⊖	
	Total	⊖	⊖	⊖ ⊕	
2 Payables	Supplier liquidity	⊖	⊖	⊖	
	Purchasing payment terms	⊖ ⊕	⊖ ⊕	⊕	
	Need for inventory replenishment	⊕	⊕	⊖	
	Internal cost optimization ¹⁾	⊕	⊕	⊕	
	Total	⊕ ⊕	⊕ ⊕	⊖	
3 Financing and investments	Own liquidity/financing need	⊖	⊖	⊖ ⊕	
	Credit rating & cost of capital	⊖ ⊕	⊖ ⊕	⊖ ⊕	
	Access to capital	⊖ ⊕	⊖ ⊕	⊖ ⊕	
	De-investment activities	⊕	⊕	⊕	
	Total	⊖ ⊕	⊕	⊕ ?	

1) Including immediate measures to reduce cash outflow e.g., "Kurzarbeit" in Germany etc..

After a peak in M&A deals in 2016-2017, **another M&A peak** can be **expected in 2021 and 2022** as an outcome of the crisis

Deals per year in Europe for IAM wholesalers, 2005-2019

Preliminary hypotheses



- > After only 2 weeks of selected lock-down imposed across Europe, initial signs of severe bankruptcy risks are already appearing
- > This is expected to have a domino effect on associated value chain players, who are unable to bear the shock of customer bankruptcy driven cash-flow and demand bottlenecks
- > Companies under this risk need to be more and more prepared to undertake such 'forced' transactions, while financially more robust firms need to be prepared to step in at the right time

Thinking ahead, **GLOBAL** may be replaced by **GLOCAL** as the post-COVID-19 era may have significant impact on supply chains

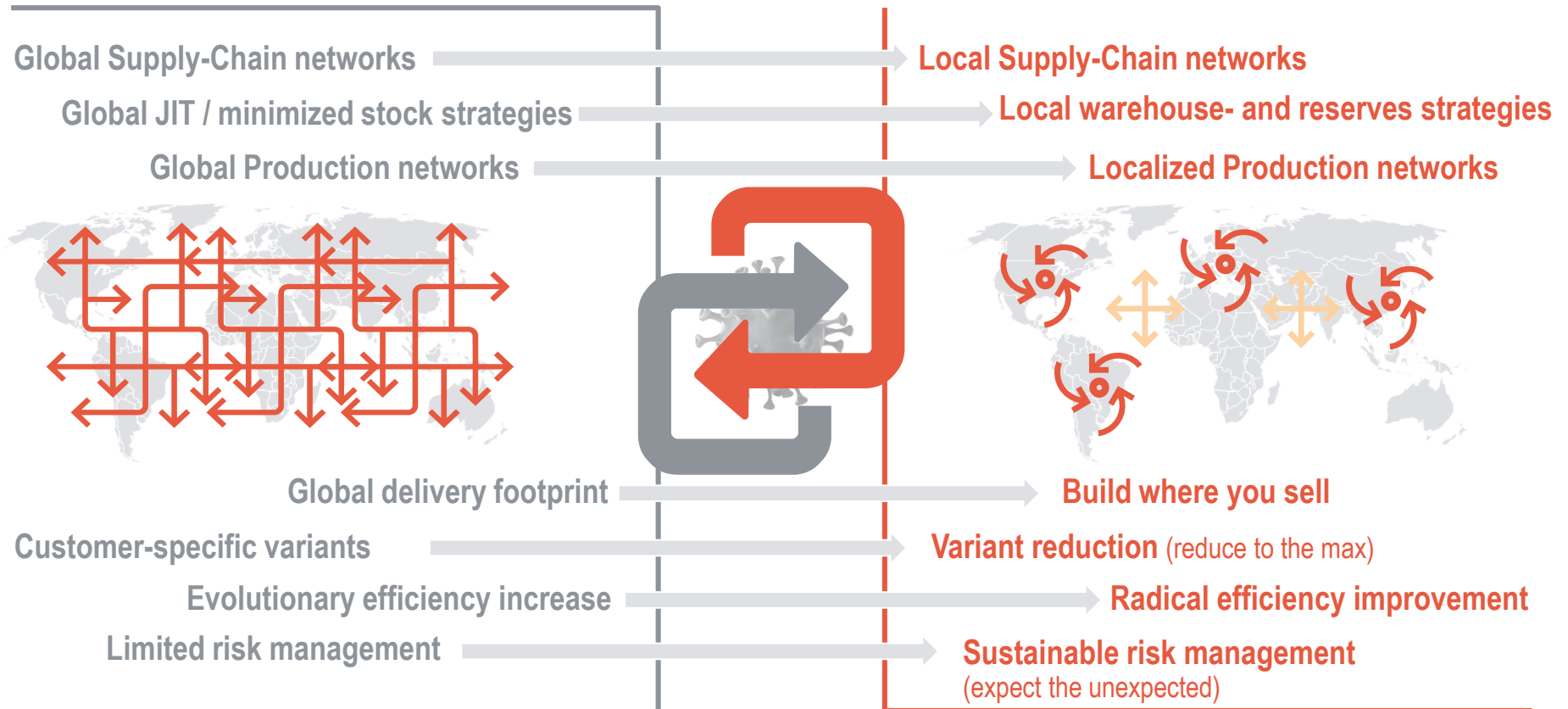
Possible paradigm shift in the course of COVID-19 recovery

Preliminary hypotheses



Pre-COVID era – GLOBALization

Post-COVID-19 era – GLOCALization



While coping with the crisis day-to-day, **IAM executives have to make critical and rapid decisions** in the face of huge uncertainty

Focus areas of the management teams



Decisions that need to be made ...

- » Cash management
- » Bonus payments & payment terms
- » Customer & channel management
- » Inventory build
- » Supply chain ramp-up
- » Plant production levels
- » Headcount changes
- » Employee policies & benefits
- » Capitalization



- » How effective will the current measures be at limiting the spread of COVID-19?
- » When will people be safe working in close proximity?
- » What events will provide the green light for businesses across the globe to safely reopen?
- » What will be the ultimate impact on vehicle parc and mileage in Europe and across the globe?
- » What support will come from government intervention and when?
- » When will the market recover?
- » Is there a need for a short-term channel switch?



...depend on questions for which no one has the answer

While the severity and duration of the COVID-19 crisis remain uncertain, **some conclusions and dynamics are clear**

Strategic considerations for the IAM

Preliminary Hypotheses



- > Companies need to **carefully balance the severity of their measures** between short-term financial needs and distorting impact on the business in the mid-term

- > Companies also need to **constantly monitor the health of their supply chain** to better manage supply and demand

- > Companies need to also **identify novel ways of collaborations/cooperation** with competitors and other stakeholders in the value chain **to share costs and define new revenue streams**

- > The overall financial distress and lower valuations will **drive consolidation** and this will in turn have a **dual impact**:
 - The **distressed WDs and suppliers** will be put **on the defensive**, becoming restructuring targets for creditors, strategic investors and PE
 - Companies with **strong balance sheets** should be **on the offensive**, driving consolidation and picking up assets in high-growth areas

- > Companies, both in the OE and IAM channel, need to ensure that they are **prepared for potential disruptive moves from competitors**, so as to not get pushed out of the market

- > Players need to also **prepare for a cost-efficient ramp up** that is lean and digital

Your personal **Automotive IAM team** and our **COVID-19-Taskforce** are at your disposal for an exchange

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Roland Berger's expertise in performance improvement (2019)

#1 in Restructuring

#	Management consultancy	Colleague assessment	Client assessment
1	Roland Berger	●●●	●●●
	McKinsey & Company	●●●	●●●
3	BCG	●●	●●●
4	AlixPartners	●●	●
5	Bain & Company	●	●●●

#1 in Automotive

#	Management consultancy	Colleague assessment	Client assessment
1	Roland Berger	●●●	●●●
	Porsche Consulting	●●●	●●●
3	McKinsey & Company	●●●	●●
4	BCG	●●●	●
5	MHP	●●	●●●

#1 in Industrial Goods

#	Management consultancy	Colleague assessment	Client assessment
1	Roland Berger	●●●	●●●
	BCG	●●●	●●●
	McKinsey & Company	●●●	●●●
	Porsche Consulting	●●●	●●●
5	A.T. Kearney	●●●	●●

Roland Berger as the consistent market leader in Restructuring, Automotive and Industrials is your proven partner for the upcoming challenges in the Industrial and Automotive sector



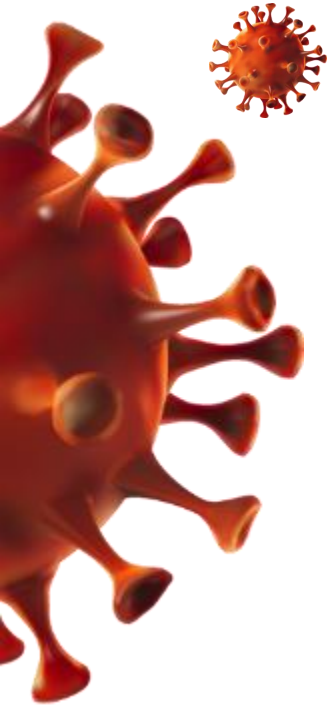


Disclaimer

The COVID-19 situation is highly dynamic and is changing on a daily basis. Although Roland Berger has taken great care in preparation of this document, it only represents our point of view at a given point in time.

This document should not be used as constituting any medical or safety advice. Neither should this document be viewed as a formal recommendation or endorsement of any particular response to recent events.

Roland Berger advises every party to make their own assessment of the current situation and the appropriate course of action to take, while considering local laws and the most recent advice issued by the local health authorities.



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