

Mobility Quarterly

Analyst themes from
earnings calls

June 2021



Automotive sales around the globe are witnessing mixed recovery in 2021. On the demand front, while select markets are gaining traction led by vaccination optimism and effective virus containment, other markets are reflecting demand pressures due to the prevailing virus circumstances. Further, supply chain disruptions and other sources of volatility are only increasing operational uncertainty for the industry. The transportation sector is experiencing a boost from booming e-commerce orders and undergoing a major digital transformation while continually expanding capabilities to cater to the rising demand pressures.

While the mobility industry has developed a clear view of the overall supply chain picture, it is still operating in reactive mode. Production schedule for manufacturers will likely remain stressed through 2021 due to the heightened operational volatility and disruptions in the lower tiers of the supply chain. Mobility companies could stay ahead of the curve by being responsive and resilient and planning around scenarios that could cause the next disruption.

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Will the uneven demand recovery translate into sustainable growth or further expose the vulnerabilities of the mobility industry?

Welcome to the Mobility Quarterly, a review of the key themes discussed by leaders of 36 mobility sector companies, covering passenger vehicle (PV), commercial vehicle (CV), airlines, logistics, shipping, automotive suppliers and retailers, during public earnings calls with analysts during April and May 2021.

Starting this quarter, we have segregated the key themes as “market forces” and “company responses” to separate change drivers from strategic initiatives. A market force is a trigger event or a driver of change that includes political, economic, competitive, social, technological, legal and environmental factors. A company response is a company action or strategy in response to a market force(s) that can help achieve the next level of growth and mitigate risks.

This edition tracks the movement of these themes from quarter to quarter to provide a perspective on shifts in the sector landscape.

Market forces and company responses that stood out include the following:

- ▶ **Demand patterns is the top market force for this quarter.** The US is showing signs of demand rebound as consumer trends remain strong and vaccination rollouts continue; China is witnessing strong demand recovery due to the effective pandemic containment, while Europe is expected to witness growth in 2H21 post widespread vaccinations. E-commerce continues to drive demand for logistics and CV companies; automotive customers are also adopting digital sales channels both for vehicle and parts sales.
- ▶ **Product design and innovation is the top company response for this quarter.** The COVID-19 pandemic has accelerated digital transformation; most companies have fast tracked digitization of products, processes and shop floors to remain viable. Further, automakers have set up steep targets for portfolio electrification and continue to invest in green mobility manufacturing and deployment driven by the tightening emission regulations across markets and consumer demand for green mobility.

Randy Miller

EY Global Advanced Manufacturing & Mobility Leader

Top five market forces

1Q21		
↔	1.	Demand patterns
↑	2.	Consumption behavior
New	3.	Value chain breakdown
↔	4.	Sustainability initiatives
↔	5.	Operating costs

4Q20	
1.	Demand patterns
2.	Public health
3.	Consumption behavior
4.	Sustainability initiatives
5.	Operating costs

1 ↔ Demand patterns

Trend in key customer segments and regional demand for products and services

- ▶ While the automotive industry is witnessing mixed recovery across regions, Original Equipment Manufacturer (OEMs) are closely monitoring and optimizing regional and product strategy amid rising cost pressures and supply chain disruptions; production schedule will likely remain volatile.
- ▶ Demand recovery is progressing for the CV OEMs across regions and product segments, e-commerce fueling demand for trucks and increase in construction activity is driving the off-road demand.
- ▶ Logistics and shipping companies are recording new contract wins on the back of a demand surge from the retail, pharma and health care sectors, while e-commerce demand continues to be robust.

3 New Value chain breakdown

Supply chain constraints and supplier failure disrupting production schedule

- ▶ Component and raw material shortages, especially the semiconductor shortage is adversely impacting production plans, working capital and product pricing of automakers, shortage is expected to endure through 2021.
- ▶ Extended COVID-19 lockdowns in key markets, storms in the US state of Texas and the Suez Canal crisis are magnifying disruption for some companies.
- ▶ Increasing adoption of electrified vehicles is also raising concerns for battery raw material and cell supply chain over the medium and long term.
- ▶ Auto retailers are facing shortages of new vehicle inventory as production remains disrupted.

2 ↑ Consumption behavior

Disruption in consumption patterns, attitude towards green products and digital technology adoption

- ▶ The auto sector is witnessing a shift toward personal mobility with demand momentum for electric vehicles, SUVs and the luxury segment; used car demand also remains strong despite price increase due to lower inventory levels.
- ▶ Auto retailers are receiving more trades through online retail platforms both for used and new car sales; digital tools are helping drive cost reductions while increasing efficiency.
- ▶ Airlines are expecting a post-summer positive inflection in business and leisure travel demand following vaccinations, and a strong acceleration into 2022.

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We are at the edge of a potential tipping point in electric vehicle sales. But many consumers are hesitating at the brink — the challenge now is to devise new ways to change attitudes; new ways to buy, own and use electric vehicles; and novel incentives that will persuade as many as possible to take the plunge.

Martin Cardel, EY Global Mobility Solutions Leader



4 ↔ Sustainability initiatives

Sustainable product and operations, strengthening compliance and external communication

- ▶ Stricter emission regulations, electric vehicle policy support and shift in customer attitude towards electric mobility and sustainability are driving automakers' long-term vision and strategy around vehicle electrification and carbon-neutrality goals for manufacturing.
- ▶ Companies are promoting initiatives facilitating a circular economy, adapting to sustainable raw materials to achieve carbon neutrality across business areas.

5 ↔ Operating costs

Gains or losses related to operating costs, including raw materials, currency, energy and talent

- ▶ Macroeconomic uncertainties and supply chain disruption are adding challenges to the financials and production schedules.
- ▶ Higher raw-material costs and commodity headwinds are increasing cost pressures; higher costs associated with CASE vehicles are expected to support growth in long term.
- ▶ Automotive peers are closely monitoring and evaluating their product pricing strategy to account for rising costs, many have announced increases in product prices.

Top five company responses

1Q21		
↑	1.	Change in financial outlook
↑	2.	Product design and innovation
↓	3.	Business restructuring
New	4.	Customer acquisition and connectivity
↓	5.	Competitive positioning

4Q20	
1.	Business restructuring
2.	Competitive positioning
3.	Product design and innovation
4.	Change in financial outlook
5.	Financial and capital strategy

1 ↑ Change in financial outlook

Projected revenues, margins and overall demand outlook

- ▶ Mobility companies remain divided in terms of providing an outlook due to near-term disruptions; however, several players are optimistic on revenue and margin outlook for 2H21 on the back of demand recovery, stronger pricing environment and cost reduction initiatives.
- ▶ Automakers are updating guidance to reflect heterogeneous recovery in demand and rising sources of disruption – resurgence of COVID-19 infections, volatile commodity costs and exchange rates, supply chain disruptions etc.
- ▶ Airlines are expecting the total capacity utilization to improve in 2Q21 as compared to last year; select peers are bullish on growing connectivity at mid country hubs.

3 ↓ Business reorganizing/restructuring

Transforming company structures to meet strategic goals and market demands

- ▶ Mobility companies are continuing with cost reduction programs to deal with the rising uncertainty while realigning product lines and bolstering investments to support growth and margins.
- ▶ Logistics peers are improving network utilization and optimizing portfolio mix with a higher share of B2B customers while continuing strong cost control leveraging digital platforms.
- ▶ Airlines are executing structural cost reduction strategy through productivity programs, accelerated fleet transformation to drive fuel efficiency and simplification.

2 ↑ Product design and innovation

Expanding and transforming offerings through focused investments

- ▶ Automakers are setting up Centers of Excellence and partnering with cross-industry players to drive innovation while committing to decarbonization and sustainability adoption across the value chain.
- ▶ In-house battery technology development and manufacturing has become a priority area as automakers are envisaging demand-supply gap and higher costs to support electrification plans.
- ▶ Suppliers are accelerating powertrain electrification and deploying Advanced driver-assistance systems (ADAS) platforms; select peers are prioritizing lightweight and sustainable materials while creating strong vehicle architectures.
- ▶ Airlines are enhancing onboard experience and hard product investments to generate higher revenue premium per passenger.

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Unprecedented advancements in technology are driving 10x capability in manufacturing and supply chain. How transportation sector players respond will define the winners and losers in the coming decade.

Kevin Custis, EY Global Transportation Industry Leader

4 **New** Customer acquisition and connectivity

New orders, customization, distribution management and omni channel experience

- ▶ OEMs are expanding EV production to cater to rising demand and increasing investments in electric powertrain technology.
- ▶ Retailers remain focused on delivering a seamless customer experience by augmenting digital capabilities; they continue to roll out omnichannel strategy to make it compatible across channels.
- ▶ Auto suppliers are recovering volumes lost during COVID-19 by expanding distribution channels; e-commerce deliveries are also on the rise owing to higher traffic and improved conversion rates.
- ▶ Airlines remain focused on driving customer engagement via direct touchpoints with customers; alliances with consumer brands is enhancing customer loyalty and improving margins.

5 **↓** Competitive positioning

New product or service launch, pricing strategy, market expansion and speed to market

- ▶ Automotive peers are following stricter price discipline owing to the headwinds from rising raw material prices, commodity price volatility, semiconductor shortages and technology costs.
- ▶ Competition for e-mobility and connected solutions is intensifying, forcing automakers not only to offer advanced technology but to do so at competitive prices.
- ▶ Logistics peers are strengthening cold chain logistics for vaccine shipment across geographies; expanding network and managing supply chain through rigorous planning and technology advancements.

Companies included in the analysis

The identification of the key themes is based solely on an examination of earnings calls held during April and May 2021.

- ▶ A.P. Møller-Mærsk A/S
- ▶ AB Volvo
- ▶ American Airlines Group Inc.
- ▶ Aptiv PLC
- ▶ Asbury Automotive Group, Inc.
- ▶ AutoNation, Inc.
- ▶ BMW
- ▶ Bridgestone Corporation
- ▶ Caterpillar Inc.
- ▶ Continental AG
- ▶ Cummins
- ▶ Daimler AG
- ▶ Delta Air Lines, Inc.
- ▶ Deutsche Post AG
- ▶ FedEx Corporation
- ▶ Ford Motor Company
- ▶ General Motors Company
- ▶ Group 1 Automotive, Inc.
- ▶ Honda Motor Co., Ltd.
- ▶ Komatsu Ltd.
- ▶ Kuehne + Nagel International AG
- ▶ Lear Corporation
- ▶ Magna International Inc.
- ▶ Michelin SCA
- ▶ Nissan Motor Co., Ltd.
- ▶ Paccar
- ▶ Renault SA
- ▶ Southwest airlines
- ▶ Tenneco
- ▶ Tesla, Inc
- ▶ The Goodyear Tire & Rubber Company
- ▶ Toyota Motor Corporation
- ▶ United Airlines Holdings, Inc.
- ▶ United Parcel Service, Inc.
- ▶ Volkswagen AG
- ▶ XPO Logistics, Inc

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