

Mobility Quarterly

Analyst themes from
earnings calls

March 2021

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Building a better
working world

“Prepare for uncertainty” is top-of-mind for mobility companies in 2021 as the industry starts witnessing newer challenges and associated political risks. The COVID-19 pandemic took mobility companies by surprise in 2020; however, its medium- to long-term impact on supply chain and the geopolitical environment is just beginning to crystallize. Recovery across markets could exacerbate shortage issues in lower tiers of the supply chain, such as the semiconductor shortage. Further, the dynamic policy environment globally is increasing volatility and challenging companies’ operations and strategy execution. While agility in decision-making, resiliency in operations, accelerated digitization and leaner cost structures have been crucial in managing the fallouts so far, companies now also require a geostrategy to integrate political risk management into overall strategy and governance.

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Mobility companies prepare for uncertainty as sources of disruption continue to increase

Welcome to the *Mobility Quarterly*, a review of the top 10 themes discussed by leaders of 28 mobility sector companies, including passenger vehicle (PV), commercial vehicle (CV), airlines, logistics, shipping, automotive suppliers and retailers, during public earnings calls with analysts during February and March 2021. This update tracks the movement of these themes from quarter to quarter to provide a perspective on the shifts in the sector’s landscape.

Themes that stood out include the following:

- ▶ **Developments in end markets:** moving up to No. 1 on the list. Automotive peers are witnessing a steep recovery in consumer demand across sub sectors; however, the impact of lockdowns and manufacturing disruption continue to reflect on performance. Shortages of semiconductors and raw materials for electric vehicles (EVs) could impact production in 2021. In the transportation sector, while cargo demand continues to be a bright spot for airlines, logistics peers are witnessing sustained growth on the back of rising e-commerce activity.
- ▶ **Competitive positioning:** continues to be No. 2 on the list. Achieving the optimum product price and customer mix remains a top priority with mobility peers. Original equipment manufacturers (OEMs) have set up a strong product pipeline with focus on sustainability and connected vehicles. Auto suppliers are launching new products and services that were delayed due to the COVID-19 pandemic. Major airlines have started diversifying their international network, while logistics peers continue to add new facilities and aircraft to their overall fleet.
- ▶ **Sustainability initiatives:** moving up to No. 4 on the list. Sustainability – in an environmental, social and financial sense – is now a management imperative. Most mobility peers are also including sustainability in their overall operations while optimizing shareholders’ return. Customer demand for sustainable products is increasing as consumers are recognizing long-term cost benefits in addition to initial support provided by governments through incentives or tax breaks.

Randy Miller

EY Global Advanced Manufacturing & Mobility Leader

Top 10 themes from quarterly earnings calls

4Q20			3Q20		
↑	1.	Developments in end markets	1.	Business reorganization or restructuring	
↔	2.	Competitive positioning	2.	Competitive positioning	
↓	3.	Business reorganization or restructuring	3.	Change in financial outlook	
↑	4.	Sustainability initiatives	4.	Developments in end markets	
↑	5.	Product design and innovation	5.	Sustainability initiatives	
↓	6.	Change in financial outlook	6.	Working capital and cash flow management	
↑	7.	Customer acquisition and connectivity	7.	Product design and innovation	
↓	8.	Working capital and cash flow management	8.	Change in production rates	
↔	9.	Financial and capital strategy	9.	Financial and capital strategy	
↓	10.	Change in production rates	10.	Customer acquisition and connectivity	

Key themes



1 Developments in end markets

Trends in key end customer segments impacting demand for products and services

- ▶ The automotive industry is witnessing acceleration in electrified powertrain due to stricter emission regulations, policy support and a shift in customer attitude toward sustainability.
- ▶ Component suppliers are witnessing increased demand for advanced safety, connected solution and powertrain solutions from new emerging EV OEMs.
- ▶ The CV industry is witnessing market recovery across end industries. High demand from the logistics sector is driving demand for on-road CVs, while growth in construction activity is driving the off-road CV segment.
- ▶ For the airlines industry, corporate travel remained subdued while leisure travel showed recovery; cargo segments continue to witness strong growth on the back of vaccine delivery and rising e-commerce demand.



Electric vehicle sales are at a potential tipping point. The challenge is to change consumer perceptions highlighting the unique and positive benefits of owning and driving an EV; experimenting with new and innovative ways to change the buying experience and using novel incentives to persuade hesitant consumers to take the plunge.

Gaurav Batra, EY Global Advanced Manufacturing & Mobility Analyst Leader



2 Competitive positioning

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

- ▶ Automakers continue with investment plans covering electrified, connected and autonomous vehicles to maintain competitiveness in a recovering market.
- ▶ Suppliers are launching smart vehicle architectures and delivering speed to market through technological advancements with commercial scalability.
- ▶ Optimum product price and customer mix remains a top priority; several OEMs and suppliers are increasing product prices to offset inflation, currency pressures, commodity prices and increased environmental compliance costs.
- ▶ Airlines have started diversifying their international network and are taking deliveries of aircraft – estimating a recovery in corporate demand in 2021.
- ▶ Logistics companies continue to add new facilities and aircraft to their overall fleet to manage the increase in demand.



Automakers must meet the challenge head-on as they change from being product-based to service-based, and do so quickly, if they're going to succeed in this new mobility world.

Martin Cardell, EY Global Mobility Solutions Leader



3 Business reorganizing or restructuring

Cost reduction programs, streamlining company structure and managing R&D investments

- ▶ Several peers are reporting performance improvement on the back of lean cost structure and rationalizing product portfolio toward high-margin segments.
- ▶ Airlines are setting up targets to drive higher system utilization and align costs with capacity while preserving the flexibility to respond to customer demand.
- ▶ Automotive peers are pursuing M&A for building digital capabilities and resilient revenue streams from connected, electric and shared mobility services.
- ▶ Logistics peers are undertaking cost reduction programs, and some have divested low-return business divisions to improve margins.



4 Sustainability initiatives

Sustainable product and operations, strengthening compliance and external communication

- ▶ Mobility peers are promoting circular economy on a global scale to reduce their carbon footprint across the product value chain.
- ▶ Several automakers are driving modularization and leveraging existing architectures across the internal combustion engine (ICE) portfolio to drive productivity.
- ▶ Stricter emission regulations, electric vehicle policy support, and shift in customer attitude toward electric mobility and sustainability are driving automakers' long-term vision and strategy around vehicle electrification and carbon-neutrality goals for manufacturing.
- ▶ Growth in diversity announced by select peers as they undertake diversity and inclusiveness-related initiatives.



This disruption (COVID-19) is also a catalyst for innovation, it is an imperative to focus on sustainability, to reconsider what we thought to be fact and reshape how we interact with our environments.

Oliver Eitelwein, Partner, Strategy and Transactions, EY-Parthenon GmbH



5 Product design and innovation

Digital technology and innovations in products and services

- ▶ PV peers are accelerating transition to electrification not only by launching new models and setting electrification targets, but also by introducing new branding solutions; battery manufacturing is also a key investment area.
- ▶ The CV industry is experiencing a shift toward electric and hydrogen-fueled vehicles with continued focus on decarbonization, expanding alternative fuel offering on the back of government support and R&D investments.
- ▶ Fleet management solutions are widely adopted by OEMs, suppliers and dealer groups. Several companies are deploying digital platforms and expanding connected solutions to enable end-to-end fleet management solutions.
- ▶ Logistics companies are tracking goods in real time and digitizing back-office operations to improve productivity, as well as investing in autonomous robots to improve warehouse efficiency.



The electrification of mobility will be an important move toward a zero-carbon energy future. But securing this future will depend on automakers and eco-system players acting now to build robust EV-centric supply chains and infrastructure while securing long-term sources of the key minerals critical for the manufacture of batteries.

Randy Miller, EY Global Advanced Manufacturing & Mobility Leader



6 Change in financial outlook

Projected revenues, margins and overall demand outlook

- ▶ While PV OEMs are witnessing recovery in customer demand, they have adjusted their financial outlook to reflect production slowdown amid semiconductor shortages.
- ▶ Suppliers are expecting partial volume recovery in 2021, albeit with a reduced margin outlook, and remain cautious of the chip shortage and softness in vehicle miles traveled.
- ▶ CV players are divided in providing their outlook, while some updated forecasts to increase targeted performance metrics, others skipped outlook updates for this quarter.
- ▶ Dealers are optimistic about aftermarket business in 2021 as more vehicles take the road.
- ▶ Most airline peers expect revenue and capacity to remain down by 40%-70% in 1Q 2021; demand is likely to recover in Q2 as travel restrictions start to ease.



7 Customer acquisition and connectivity

Access to the customer, customer experience, managing channels and dealer network

- ▶ Automakers are prioritizing the customer experience and are aiming to converge the online and physical car buying experiences to create an omnichannel experience.
- ▶ Dealerships are increasingly relying on digital platforms to reduce costs and improve customer experiences and salesforce efficiency.
- ▶ Suppliers are winning new orders from OEMs on the back of electrified and connected solution competencies, collaborating with EV OEMs and technology companies to develop solutions.
- ▶ Logistics peers are improving the post-purchase experience by providing better visibility and time delivery options, collaborating with large e-commerce customers to manage their shipping volume in the non-peak days and avoid surcharges for SMEs customers.



8 Working capital and cash flow management

Inventory, working capital and cash flow optimization

- ▶ Automotive peers are demonstrating discipline by improving margins on the back of disciplined cash flow management and liquidity strategies.
- ▶ Several auto suppliers are facing declining free cash flow due to the COVID-19 pandemic; rebuilding inventory as strong customer demand toward the year-end depleted inventory levels.
- ▶ Dealerships remain resourceful with their inventories of used cars by purchasing older cars from individual buyers at a lower cost compared with what they pay to fleets.



9 Financial and capital strategy

Financing for R&D, capex investments, dividend payout and debt reduction

- ▶ Several mobility companies are leveraging strong cash flows for reducing debt while resuming dividend payouts and share buybacks as they stay committed to creating long-term shareholder value.
- ▶ Airlines are reducing non-aircraft capital expenditure and managing aircraft expenses; payroll support funds are critical in saving jobs during unprecedented demand decline.



10 Change in production rates

Production at specific facilities, repurposing assets, forecasted changes to production rates

- ▶ Automotive industry capacity utilization and production rates have improved on the back of demand revival and supply chain reinvention. However, global semiconductor shortage is increasing uncertainty around potential production volumes.
- ▶ OEMs are shifting production toward high growth and more profitable segments such as SUVs, light commercial vehicles and electric vehicles, while rationalizing production in non-viable markets or product segments.
- ▶ Airlines are optimizing fleet efficiency by retiring older and less efficient aircraft and repurposing grounded passenger aircrafts for cargo flights as cargo demand continues to increase.

Companies included in the analysis

The identification of the top 10 themes is based solely on an examination of earnings calls held during February and March 2021.

- ▶ A.P. Møller – Mærsk A/S
- ▶ AB Volvo
- ▶ American Airlines Group Inc.
- ▶ Aptiv PLC
- ▶ Asbury Automotive Group, Inc.
- ▶ AutoNation, Inc.
- ▶ Bridgestone Corporation
- ▶ Caterpillar Inc.
- ▶ 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.
- ▶ Lear Corporation
- ▶ Nissan Motor Co., Ltd.
- ▶ Renault SA
- ▶ Tata Motors Limited
- ▶ Tesla, Inc
- ▶ The Goodyear Tire & Rubber Company
- ▶ The Michelin Group
- ▶ Toyota Motor Corporation
- ▶ United Airlines Holdings, Inc.
- ▶ United Parcel Service, Inc.
- ▶ XPO Logistics, Inc.

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