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Mobility Quarterly

Analyst themes from 2Q19 earnings calls

Shifts in demand patterns by geography were a leading theme on 2Q19 earnings calls for mobility companies. They are gearing up to manage the new phase of variation, which is accelerating in all sub-sectors. The mobility industry is facing disruption from multiple directions: evolving mobility solutions, intensifying competition, product innovation, technology proliferation, stringent regulations and changing customer preferences. Further, unfavorable political scenarios and slowdowns in key markets have disrupted the demand/capacity management scenario. Companies have accelerated digitization and analytics initiatives to drive operational efficiencies – from manufacturing footprint optimization to supply chain visibility.

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Rocky roads ahead – mobility companies strengthen preparedness in the face of rapid market shifts

Welcome to the *Mobility Quarterly*, a review of the top 10 themes discussed by leaders of 20 mobility sector companies, including passenger vehicle (PV), commercial vehicle (CV), transportation and automotive suppliers, during public earnings calls with analysts. This update tracks the movement of these themes from quarter to quarter to provide a perspective on shifts in the sector landscape.

Themes that stood out in 2Q19 include:

- ▶ **Geographic developments**, again at No. 1 on the list. Companies are improving their preparedness to respond to continued volatility, with some major economies, including emerging markets, facing potential recessions that could cascade to other regions and change overall sector growth. While the US continues to witness strong demand in the truck and utility vehicle segments, sales in other segments declined. Further, challenges related to stringent regulatory requirements are not only continuing, they seem to be intensifying.
- ▶ **Operating costs**, moving up to No. 2. Unpredictability in input costs makes it difficult to achieve an optimum hedging exposure. Most companies faced currency-related headwinds in the last quarter and expect them to continue in 2H19. Mobility peers are forced to increase spending toward new offerings and digital technologies, which bucks the trend of cost control but is critical for survival.
- ▶ **Restructuring initiatives**, moving up to No. 3. Mobility companies are increasingly looking for ways to reduce operating costs. Automation and digitization of manufacturing and back-office processes continue to be high priorities. These transformations require workforces with more specialized skills, so companies are seeking to hire specialists while overall headcount is being reduced. Companies are focusing on improving cash flows in preparation for potentially challenging market conditions in 2H19.

Randy Miller
EY Global Advanced Manufacturing & Mobility Leader

Top 10 themes from quarterly earnings calls

2Q19			1Q19	
	1.	Geographic developments	1.	Geographic developments
	2.	Operating costs	2.	Evolution of mobility
	3.	Restructuring initiatives	3.	Operating costs
	4.	Evolution of mobility	4.	Restructuring initiatives
	5.	Product evolution	5.	Inorganic growth (M&A, joint ventures and partnerships)
	6.	Inorganic growth (M&A, joint ventures and partnerships)	6.	Regulatory issues
	7.	Working capital and cash flow management	7.	Manufacturing and supply chain management
	8.	Manufacturing and supply chain management	8.	Product evolution
	9.	Regulatory issues	9.	Working capital and cash flow management
New	10.	Organic growth (product, strategy, innovation)	10.	Geopolitical issue

Key themes

1 Geographic developments Market conditions by region

- ▶ Buying activity slows down in China and India across most vehicle categories; extended macroeconomic uncertainty, regulatory constraints and the continuing weakness of vehicle sales have led to a downward revision of outlooks.
- ▶ Truck sales reach record highs in the US on the back of continuous improvements in deliveries and shipments; construction sales also increase, in line with higher infrastructure spending by states.
- ▶ US sales of light trucks and hybrid vehicles rise, supported by a large-scale shift from cars to trucks and lineup refreshes; sales of standard passenger vehicles decline.
- ▶ Latin America continues to improve from very low levels of sales. Industry trends remain unstable, reflecting slowing economic growth and volatile exchange rates in the region.

2 Operating costs Gains or losses related to operating costs including raw materials, currency, technology and talent

- ▶ All major currencies continue to weaken against the US dollar. Price increases have reduced the impact of currency losses in some markets with high inflation but can erode market share.
- ▶ Most companies report moderation of raw material costs and estimate the benefits of pricing actions and mix enhancements to improve the bottom line.
- ▶ Double-digit wage inflation in Mexico and some parts of Eastern Europe is offsetting accrued manufacturing efficiencies. Companies opt for restructuring programs to tackle the elevated costs.
- ▶ R&D spending remains high as companies continue to focus on the development of vehicle architectures and technology for electrification, autonomy and connected mobility.

3 Restructuring initiatives Operational streamlining, business function reorganization and divestments

- ▶ Several peers intensify reviews of their current and future portfolios to focus resources on the most-relevant businesses. Some companies launch business-wide efficiency programs and implement new company structures.
- ▶ Automotive companies are realigning business units to gain greater visibility into financial returns by product segment, region, customer and program.
- ▶ Transportation peers expand into automated hubs and improve time in transit across product segments to enhance network flexibility and enable faster delivery.
- ▶ While manufacturing capacity is being adjusted by region to focus on high-growth segments, overall headcount is still being reduced.



4 Evolution of mobility

Growth of connected, autonomous, shared and electric (CASE) vehicles

- ▶ PV original equipment manufacturers (OEMs) are pursuing zero-emission offerings, launching a wide array of electrified vehicles, including four-wheel-drive, high-power, high-performance models. China continues to be an important part of the electrification strategy.
- ▶ Select automakers confirm that they are close to breaking even in terms of electric vehicle (EV) profitability as they implement further cost reductions and shift resources to electrification programs.
- ▶ CV peers believe that the mobility industry is at the tipping point for adoption of autonomy in the mining sector. PV companies are codeveloping autonomous technology to reduce costs by sharing.
- ▶ Component suppliers continue to secure business wins for high-growth product segments such as advanced driver-assistance systems, e-mobility and connectivity.



The industry is recognizing the charging challenge and the potential of joining forces to tackle it. Automakers are prioritizing the release of new EVs along with charging infrastructure, electric utilities are seeking further expansion of charging networks, and oil majors — anticipating declining revenues — are investing in and acquiring charging vendors.

John Simlett, EY Global Future of Mobility Leader



5 Product evolution

Shift in demand of vehicle types, increasing advent of R&D and product innovation

- ▶ Transportation peers are stretching capabilities to offer more speed and convenience to customers; services such as all-week delivery, later pickup for next-day ground delivery and enhanced network capabilities are targeted for large e-commerce companies.
- ▶ PV makers are shifting capital allocations of trucks, SUVs, crossovers and performance vehicles as they are backed by strong consumer demand globally.
- ▶ Automakers are evolving their vehicle architecture road maps at different speeds; most are transitioning to more-scalable systems, which will enable complete smart vehicle architecture in the future.
- ▶ Premium OEMs announce plans to launch series of fuel cell vehicles, potentially replacing battery technology.



6 Inorganic growth (M&A, joint ventures and partnerships)

Efforts to increase market share, innovate products and services, and advance technical capabilities

- ▶ Advanced vehicle technology, including autonomous and connected technology, witnesses growing collaboration of automakers with technology companies.
- ▶ Transportation peers acquire freight solution companies to enhance their service portfolios, expand their geographic bases and improve the customer experience.
- ▶ PV companies increasingly opt for joint development of new vehicle segments for both electric and internal combustion engine (ICE) vehicles to work with a reduced cost structure.
- ▶ Several suppliers acquire select businesses of peers to create synergies and partner with technology firms for advanced products; a tiremaker allies with a top competitor to access and drive retail strategies in select geographies.



Acquisitions aren't the only situations in which traditional OEMs and new entrants can play off each other's strengths: it would also be fascinating to see a joint venture between the two. Under this scenario, all the knowledge from the traditional OEM could be used with the new entrant, allowing everyone to innovate. It happens in the tech world all the time."

Sven Dharmani, EY Global Advanced Manufacturing & Mobility Supply Chain Leader



7 Working capital and cash flow management

Changes observed from the prior quarter

- ▶ Operating cash flow continues to improve for most peers because of a strong prioritization of working capital discipline, supported by agile production and cost-control programs.
- ▶ Some companies witness a decline in working capital caused by demand volatility and higher restructuring costs.
- ▶ Companies are taking actions to rightsize inventory at the micro level while they increase flexibility in their supply chains.
- ▶ PV peers are looking to normalize inventories and do not forecast growth in dealer inventory in 2H19.



8 Manufacturing and supply chain management

Modernizing and restructuring manufacturing and supply chain

- ▶ Multiyear programs to reduce manufacturing costs and increase productivity are continuing to yield positive results. Some companies are increasing cost reduction targets in 2H19.
- ▶ For some PV peers, capital investment for manufacturing decreased significantly, owing to flexible production and standardization of equipment and processes.
- ▶ Automakers are adopting digital vehicle platforms that integrate systems such as electric propulsion, cybersecurity protection and advanced active safety systems.
- ▶ Several automakers raise issues involving supply chain constraints because of ramped-up issues at their suppliers that resulted in product launch delays and demand constraints.



9 Regulatory issues

Effects of government policies and trade flow on industrial revenues and margins

- ▶ Automakers are actively updating their portfolios in line with CO2 requirements in different regions. They face increasing compliance costs and bottlenecks caused by certification backlogs.
- ▶ Early adoption of next-stage emission standards in India (BS VI) and China (China VI) is considered as the biggest challenge in a decade by automakers, which have increased their investments significantly.
- ▶ France's reduction of incentives under its car fleet renewal program is expected to impact demand in 2H19.



10 Organic growth (product, service strategy and innovation)

Expansions or reductions of activity in key product lines and capacity adjustments

- ▶ Several companies increase spending for new offerings and digital technologies. While this bucks the trend of cost control, it is viewed as a critical part of holding on to market share.
- ▶ CV peers are incubating electric technology offerings for allied sectors including the industrials and marine segments.
- ▶ Transportation peers are targeting large e-commerce customers, expanded capacity and enhanced technological capabilities with automated hubs and flexible networks.

Companies included in our analysis

- ▶ AB Volvo
- ▶ Aptiv PLC
- ▶ BMW AG
- ▶ Caterpillar Inc.
- ▶ Continental AG
- ▶ Daimler AG
- ▶ Deutsche Post
- ▶ FedEx
- ▶ Ford Motor Company
- ▶ General Motors Company
- ▶ Goodyear Tire & Rubber Company
- ▶ Groupe Renault
- ▶ Honda Motor Co., Ltd.
- ▶ Lear Corporation
- ▶ Magna International Inc.
- ▶ Nissan Motor Co., Ltd.
- ▶ Tata Motors
- ▶ Toyota Motor Corporation
- ▶ United Parcel Service, Inc.
- ▶ Volkswagen Group

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