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Advanced Manufacturing Quarterly

Analyst themes from
earnings calls

December 2020

A renewed focus on the customer shaped decisions made by aerospace and defense (A&D), industrial products (IP), and chemical companies during 3Q20. With revenues at or below 3Q19 levels for many peers, companies streamlined operations through cost control and divestitures. Understanding customer needs has become more critical than ever as manufacturers create differentiated solutions that support changing business models in a transforming industrial environment.

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Manufacturers streamline operations while deepening customer relationships

Welcome to the quarterly review of the top themes discussed by leaders of 32 advanced manufacturing (AM) sector companies (including those from the A&D, IP and chemical subsectors) during public earnings calls with analysts in October and November 2020. This update tracks the movement of these themes from quarter to quarter to provide a perspective on shifts in the AM landscape.

Themes that stood out include the following:

- ▶ **Business reorganization/restructuring**, which rose to No. 2 this quarter. Cost reduction, now included in this theme under our updated framework, drove streamlining activities at many companies. Divestitures allowed companies to better focus resources on key growth markets while acquisitions were held to stringent cost savings targets. Digital tools are being deployed more widely to maximize productivity measures such as factory uptime.
- ▶ **Competitive positioning**, new to the list at No. 3. Product and service quality are becoming more important than ever as manufacturers strive to hold onto market share. Outcome-based pricing models are being offered more frequently to customers, especially those in challenged end markets such as oil and gas. Acquisitions and joint ventures are enabling companies to bring differentiated products and services to market more quickly.
- ▶ **Customer acquisition and connectivity**, also new to the list at No. 6. Manufacturers are prepared to invest in understanding their customers better. Sales teams are being expanded in growth markets, enabled by new technologies such as mobile apps with detailed information about customer needs and opportunities. With this knowledge, companies can create and deliver unique solutions that will help their customers not only survive difficult economic conditions but emerge with stronger and more resilient business models.

Jerry Gootee
EY Global Advanced Manufacturing Sector Leader

Top 10 themes from quarterly earnings calls

3Q20			2Q20	
↔	1.	Developments in end markets	1.	Developments in end markets
↑	2.	Business reorganization/restructuring	2.	Financial/capital strategy
New	3.	Competitive positioning	3.	Operating costs
↔	4.	Change in financial outlook	4.	Change in financial outlook
New	5.	New product and service innovation	5.	Critical projects
New	6.	Customer acquisition and connectivity	6.	Culture and talent
↓	7.	Financial/capital strategy	7.	Working capital and cash flow management
↓	8.	Working capital and cash flow management	8.	Geographic developments – growth markets
↔	9.	Changes in production rates	9.	Changes in production rates
↓	10.	Culture and talent	10.	Business reorganization/restructuring

Key themes

↔ 1 Developments in end markets

Trends in key customer segments impacting demand for products and services

- ▶ Automotive, aerospace, and oil and gas were again challenged in 3Q20 by COVID-19 crisis and volatile oil prices.
- ▶ Services and aftermarket businesses saw declines as customers reduced expenses.
- ▶ In China, sectors such as automotive, consumer durables and construction experienced V-shaped recoveries and fueled double-digit local revenue growth for many peers.
- ▶ Demand for defense equipment and services from countries in the Middle East, Southeast Asia and Europe continued to grow.
- ▶ High demand for personal protective equipment (PPE), testing kits and medical supplies boosted sales of specialized materials with YoY growth rates as high as 150%.



It's the customers of customers who are often driving innovation as we search for solutions to support their needs. Understanding the end customer and in turn end market is where the true innovation takes place.

Mark Heidenreich, Ernst & Young LLP Supply Chain and Operations Executive Director

↑ 2 Business reorganization/restructuring

Transforming company structures to meet strategic goals and market demands

- ▶ Restructuring and streamlining are helping companies manage costs in response to lower YoY revenues.
- ▶ Discretionary spending, including General and Administrative (G&A) expenses and variable pay programs, is being reduced by several peers.
- ▶ Back office operations are being streamlined through consolidation and digitization.
- ▶ Some manufacturers are implementing AI-based predictive analytics to increase factory uptime.

New

3 Competitive positioning

Market share, new division and brand launches, pricing strategy, and speed to market

- ▶ Investments in product development, digital technologies and sales are helping AM companies hold onto market share.
- ▶ Customer relationships are being strengthened by technology-driven services and outcome-based pricing models.
- ▶ A&D companies are pursuing space exploration as a new market and forming joint ventures to bolster their competitive positions.



4 Change in financial outlook

Changing forecasts for revenues or earnings per share

- ▶ Revenue forecasts were increased by several peers on greater confidence of market strength in 4Q20.
- ▶ Many manufacturers expect to see an overall recovery in 2H21 or later, based in part on the availability of COVID-19 vaccines.
- ▶ Commercial aerospace activity is not expected to return to pre-COVID levels before 2023.

New

5 New product and service innovation

Expanding and transforming offerings through focused investments

- ▶ Products and services that increase safety and well-being, such as air filtration systems and touchless interfaces in buildings, are coming to market.
- ▶ Updated CO2 emissions targets are creating demand for more energy-efficient products such as aerospace engines, building materials and infrastructure design.
- ▶ Peers are reorganizing resources to focus on the creation and launch of sustainability-based solutions such as plastics recycling, energy storage and renewable fuels.



Sustainability is poised to continue growing in importance. Attitudes are heading more into a green direction as consumers pay more attention to the social impact of what they purchase and consume.

Frank Jenner, EY Global Chemicals & Advanced Materials Industry Leader

New

6 Customer acquisition and connectivity

New orders, reorganizing to better support customer groups, customization of products and services

- ▶ AM companies are working with customers to adapt their assets to new business models. One IP peer is helping customers convert passenger planes to freighters and offering more flexible payment terms to help upgrade fleets.
- ▶ Sales teams are expanding in growth markets, particularly China.
- ▶ Newly deployed technologies such as mobile apps are enabling field sales teams to be better informed about individual client opportunities and to respond more quickly to their needs.



Over the last several months customers and suppliers have been working very closely together. There is a huge opportunity for companies to maintain that collaboration and redirect it toward product innovation.

Jerry Gootee, EY Global Advanced Manufacturing Sector Leader



7 Financial/capital strategy

Capital management and deployment

- ▶ Liquidity remains a high priority as companies continue to restructure debt to extend maturity dates.
- ▶ Share buyback and dividend activity is resuming as leaders have greater confidence in a coming recovery.
- ▶ Acquisitions and joint ventures are helping manufacturers deepen their technology and product expertise more quickly than making in-house investments.



8 Working capital and cash flow management

Changes observed from the prior quarter

- ▶ Many manufacturers are preserving cash by reducing capital expenditures and discretionary spending.
- ▶ Digital inventory and warehouse management tools are improving the ability to reduce excess inventories and working capital.
- ▶ Pension funds are drawing more attention as manufacturing workforces age and as older workers look to retire sooner than planned due to COVID-19 crisis.



9 Changes in production rates

Management of facilities and production lines

- ▶ Production rates increased in 3Q for many chemical and IP companies as key markets resumed activity after 1Q and 2Q shutdowns.
- ▶ Aerospace manufacturers continue to operate at significantly reduced levels to manage costs.
- ▶ Production of pandemic supplies is still at full capacity. Companies that expanded operations temporarily are considering long-term commitments to serving new markets.



10 Culture and talent

Workforce management and transformation

- ▶ Headcount reduction programs announced in 2Q are being carried out in 2H20 as companies manage operating costs. A few peers are increasing reductions in staff serving challenged end markets such as oil and gas.
- ▶ Manufacturers are continuing to implement new safety procedures at facilities in response to COVID-19 crisis and to support employees working remotely.
- ▶ Despite variable pay reductions across the sector, one peer announced a special bonus for all employees below the senior management level to reward quality service during the pandemic.

Companies included in the analysis

The identification of the top 10 themes is based solely on an examination of earnings calls held from October to November 2020.

- ▶ ABB Ltd.
- ▶ Airbus SE
- ▶ Amcor plc
- ▶ BAE Systems plc
- ▶ BASF SE
- ▶ Boeing Company
- ▶ Braskem
- ▶ Carrier Global Corporation
- ▶ Corteva, Inc.
- ▶ Covestro AG
- ▶ Danaher Corporation
- ▶ Dow Chemical Company
- ▶ DuPont de Nemours, Inc.
- ▶ Eaton Corporation plc
- ▶ Evonik Industries AG
- ▶ Flowserve Corporation
- ▶ General Dynamics Corporation
- ▶ General Electric Company
- ▶ Honeywell International, Inc.
- ▶ Johnson Controls International plc
- ▶ Leonardo S.p.A.
- ▶ Linde plc
- ▶ Lockheed Martin Corporation
- ▶ Mitsubishi Chemical Holdings Corporation
- ▶ Northrop Grumman Corporation
- ▶ Otis Worldwide Corporation
- ▶ Raytheon Technologies Corporation
- ▶ Siemens AG
- ▶ Solvay SA
- ▶ Sumitomo Corporation
- ▶ Textron, Inc.
- ▶ Toray Industries

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