



Understanding the impact of COVID-19 Automotive sector

The impact of COVID-19 on today's globally integrated automotive sector has been swift and significant. Initial concerns over a disruption in Chinese parts exports quickly pivoted to large-scale manufacturing interruptions across Europe. In the US, assembly plant closures are adding to the intense pressure on an increasingly distressed global supply base where companies are at risk of defaulting on covenants, potentially requiring banks to step in. The exogenous shock of the pandemic exacerbates an existing downshift in global demand that will likely lead to increased M&A activity as opportunities for sector consolidation emerge for private equity players.

Potential long-term impact on automotive companies

- A prolonged truncation of consumer demand as countries work through various lock-down scenarios may spark a global recession, leading to widespread loss of consumer confidence, significantly impacting automaker revenues and profitability
- Auto companies may be forced to divert capital to shore up continuing operations, starving R&D funding for advanced technology initiatives and other discretionary projects
- Strategic decisions to exit unprofitable global markets and vehicle segments may be accelerated, significantly lowering output as manufacturing capacity is rationalized/consolidated
- Suppliers facing liquidity issues may succumb to rapidly deteriorating market conditions, causing widespread disruption and potentially catastrophic consequences across the entire global automotive manufacturing ecosystem
- A significant amount of restructuring may be expected in the auto retail sector as dealers are unable to pivot quickly enough to changing demand conditions

Key questions executives and boards should be asking

- How can innovation be an enabler of business optimization, fueling operational fitness initiatives in a disrupted industry?
- To what degree is social distancing changing consumer behavior and what is the role of digital tools in maintaining customer engagement going forward?
- Are there strategic partnerships and/or acquisition opportunities to enhance competitive positioning and business resiliency?
- What strategic investments could be made for long-term gain? (e.g., IT infrastructure upgrades, digital supply network transformation)



Practical next steps

- Identify, prioritize, and accelerate cost-out measures across the enterprise
- Optimize working capital and identify measures to deliver rapid, tangible cash flow benefits
- Revise forecast assumptions, prioritizing downside scenarios given the current level of market uncertainty
- Identify potential sources of collateral to secure access to additional borrowing solutions should active scenario planning suggest that liquidity will become an issue
- Focus on employee safety and care as a potential v-shaped recovery will require an engaged workforce

For additional steps that organizations should consider taking, visit www.deloitte.com/covid19-resilient-leadership

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