

- The outbreak of coronavirus disease 2019 (COVID-19) could be the most significant event to impact economies in generations with the potential for ripple effects in the automotive market and supply chain for years to come. Accordingly, OEMs and suppliers from all tiers may need to rethink the supply chain model, from the sourcing of raw materials to the production of finished products and everything in between.
- 93% of vehicle manufacturing in the US is now offline and as a result car production has decreased to 1.7 million vehicles in March from 2.62 million in February of 2020. Forecast production in the US is expected to be 2.9 million in 12 months' time. In the long-term, the US car production is projected to trend around 2.80 Million Units in 2021, according to our econometric models.
- EU-wide production losses due to factory shutdowns amount to at least 1.2 million vehicles so far. The impact of this pandemic, combined with some brought forward production, and significant supply chain and market disruption, would see UK production falling to just under 1.2 million vehicles in 2020 and then to circa 900,000 or slightly lower through to 2025.
- Many leading global automotive manufacturers have suspended production in the US and EMEA because of supply chain disruption and demand reduction. Some have repurposed for production of COVID 19 medical devices.

## Survival and Loss Mitigation – a Few Steps You Can Take Now

### Risk Management Plans

These should include:

- Diversifying supply chains geographically.
- Securing multisourced key commodities.
- Implementing inventory systems.

### Attention to Supply Network

- OEMs and Tier 1 suppliers should enhance communications with key Tier 2 suppliers and beyond. Working on contingency plans, and alternatives to keep plants running at maximum efficiency within the likely supply-side constraints.
- Increased attention to the status of inventory at the supplier location, supplier production schedules and status of supplier shipments will provide early warning of shortages and allow upper tier suppliers to respond accordingly.
- Companies that are not electronically connected to key direct suppliers and have real time data on the inbound flow of products and materials, should move quickly to implement those programs to access data and enhance management and decision-making capabilities.

### Protect Cash Flow

Suppliers should:

- Focus on collecting aged receivables.
- Extend payables to conserve cash.
- Consider whether they will be eligible to receive government funds.

### Implementation of Alternative Supply Sources

- Once plant shutdowns and travel restrictions have eased, suppliers at all tiers should move quickly to engage secondary supplier relationships and secure additional critical inventory and capacity.
- Alternative sourcing markets will vary greatly by supply chain and manufacturing expertise. Countries such as Mexico, Brazil, India, and Chile have historically been the most likely markets in which to diversify beyond China, yet the rate at which the virus has spread may have diminished these alternatives.

Click here to use our  
**Complimentary Contingency Planning Tool.**

### Develop a New Financial and Operating Plan

- Protecting working capital – This includes an inventory of existing working capital, drawing on existing lines of credit and developing and implementing a cost reduction plan to achieve rapid positive cash flow benefits.
- Legal and business review of existing credit facility documents:
  - Review loan and bond indenture documents thoroughly with a particular emphasis on non-monetary covenants.
  - Proactively deal with covenant breaches.
  - To the extent a company has multiple levels of financing, it is important to review the inter-creditor agreements and include all tiers of lenders in discussions because if covenant relief is necessary, it will likely take a collective and collaborative effort.



- Identify any collateral that could secure additional financing:
  - Monitor government grants and relief options.
  - Additional financing may not be easy to secure; therefore, it is important to identify assets that might be available to secure additional financing, including real property, inventory and account receivables.
  - Consider what debt relief, if offered, will have on the ability to secure government relief offerings.

## New Financial Projections

- Suppliers should recast operating cash flow projections. This includes revising assumptions, forecasts and business plans that reflect the new COVID-19-deflated market.
- Prepare current projections that consider the best and worst cases for the next few months and longer.
- Be alert to the need to initiate a restructuring process; the sooner steps are taken to start this process, the more options your business will have.
- Hiring experienced legal professionals and financial advisors early can provide credibility in dealing with lenders, trade creditors and investors and preserve enterprise value.

## How We Can Help You

- Retaining legal advisors is crucial at this time as they can address an impending default or forecast inability to perform on contracts or other obligations. We can help develop strategic responses that minimize risk and maximize value.
- In addition, investors are more likely to respond quickly and positively when provided with information that has been reviewed by the company's legal and financial advisors.
- A global supply chain requires global support. We can help you address these and other commercial, legal and COVID-19 policy challenges you may have currently, including local law advice across multiple jurisdictions, utilizing our global full-service team of lawyers and policy advisors.
- We are intimately familiar with government assistance programs that could benefit you and your suppliers.
- Our team would welcome the opportunity of discussing your pressing COVID-19 needs with you in their relevant industry and commercial context.

If you would like more detail on some of these topics, you can find such resources on our [COVID-19 Resource Hub](#). Here we provide 24/7 monitoring and regular updates on current COVID-19 legal and business continuity issues across our global platform, including how business is responding to potential new and existing ramifications.

## Contacts



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