

NABE MANUFACTURING ROUNDTABLE

COVID-19 impact on industries and supply chains

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Economics of 'fear' meets Economics of 'sudden stops'

Impact of Coronavirus

Travel & Tourism

- Official bans and restrictions
- Reduced appetite for business travel
- Reduce demand for leisure travel

Confidence

- Consumers pull demand forward
- Businesses reduce activity
- Events cancelled
- Lockdown risk

Supply chains

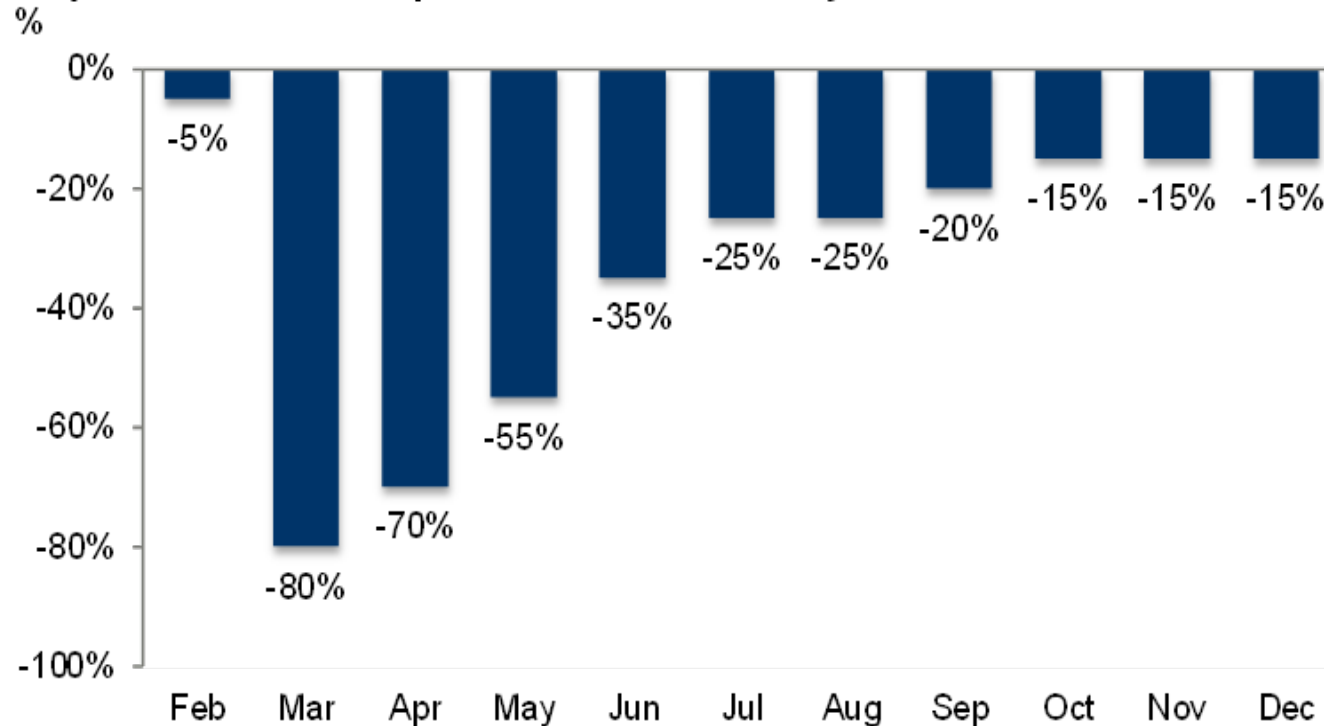
- Inventories run down
- Factory closures in the US
- Lockdown risk

Financial conditions = Accelerator

Financial conditions are acting as an amplifier, and the risk from a liquidity or credit squeeze is real, especially in the context of elevated corporate debt

Tourism revenue expected to be 75% below normal in Mar/Apr

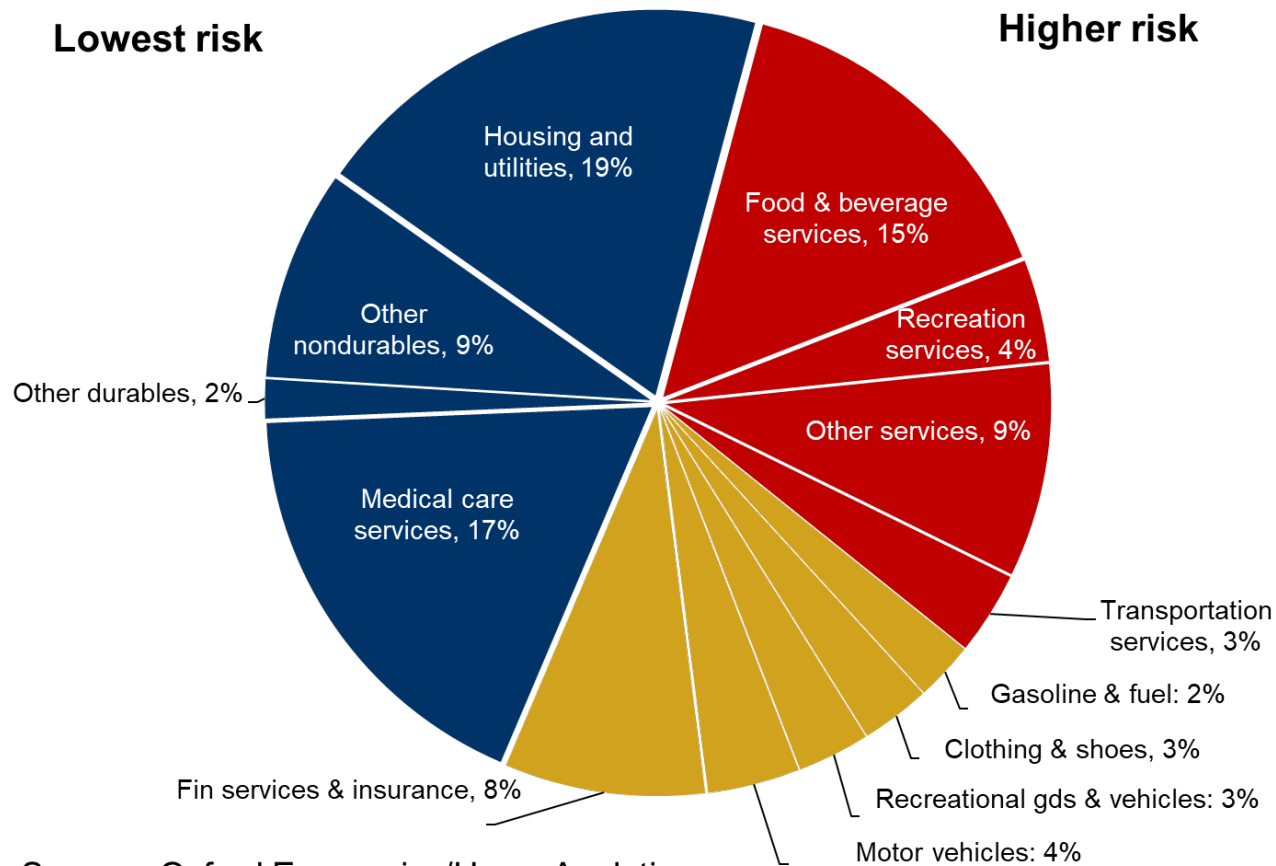
Projected COVID-19 impact on tourism industry revenue



Source: Oxford Economics

Large share of consumer spending is discretionary or social

US: Consumer spending at risk from virus



Source : Oxford Economics/Haver Analytics

Which sectors are *most vulnerable* to the *sudden stop*; or potentially least able to take advantage of recovery?

Index of Vulnerability:

5 factors to measure which of 55 industries have:

1. Strong links with:

- a) Travel, tourism and entertainment
- b) Products or services that are bought with discretionary budgets
- c) People and in-person interactions

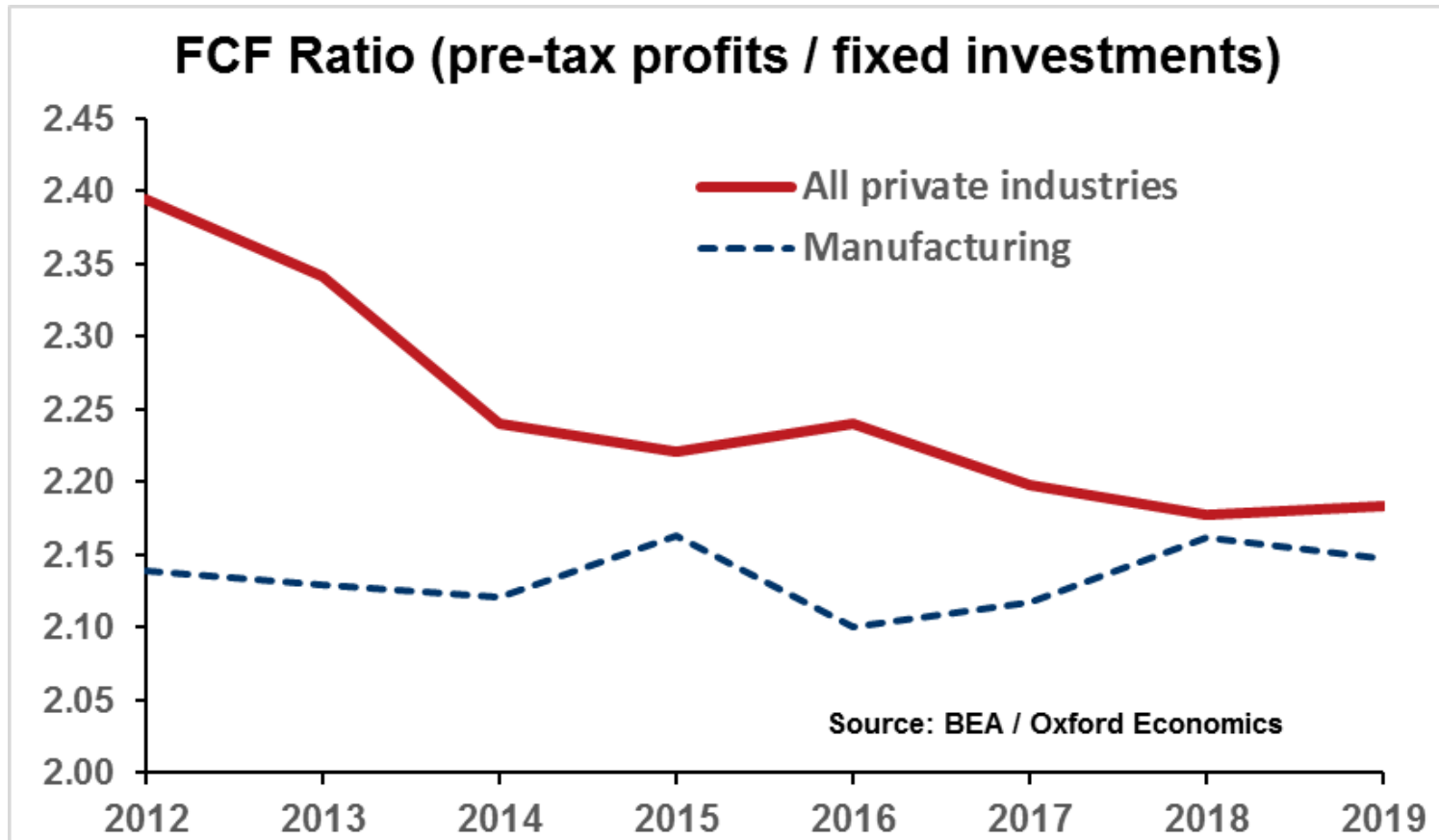
✓ **Narrow financial buffer:**

2. Low free cash flows (FCF Ratio = Operating Profits / CapEx)
3. Low interest coverage (EBIT / Interest Expense)

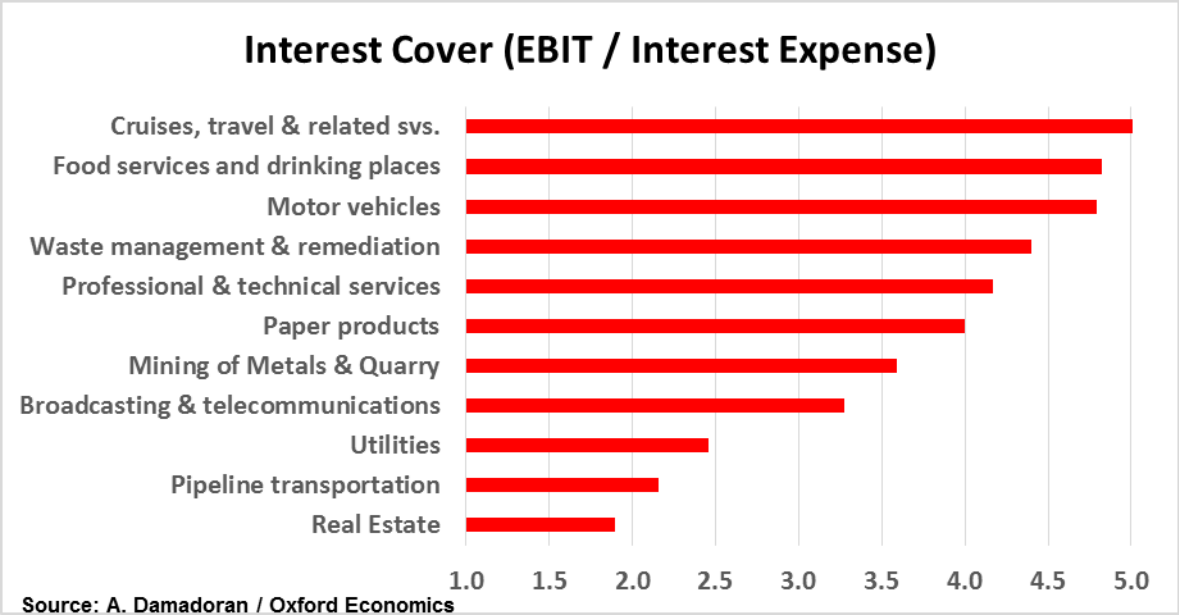
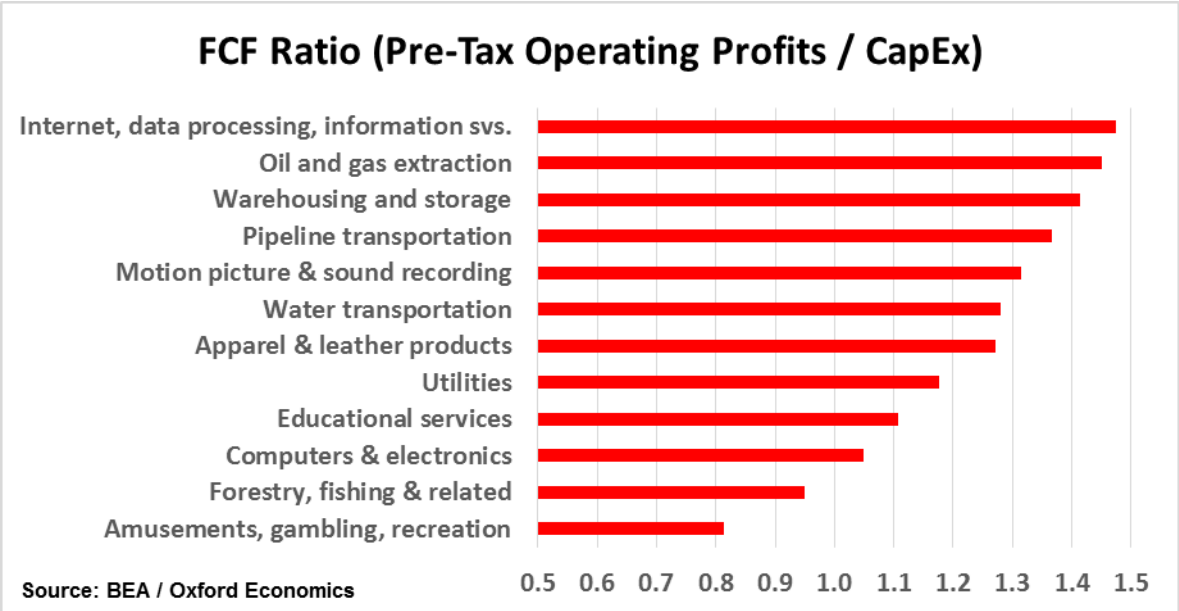
✓ **Constraints from high amount of leverage:**

4. Operating leverage ($DCOS = 100 * (\text{Depreciation} / \text{Sales})$)
5. Financial leverage (Debt / EBITDA)

Services sectors posting lower post-CapEx cash flows



Industries with smaller financial cushions at start of 2020

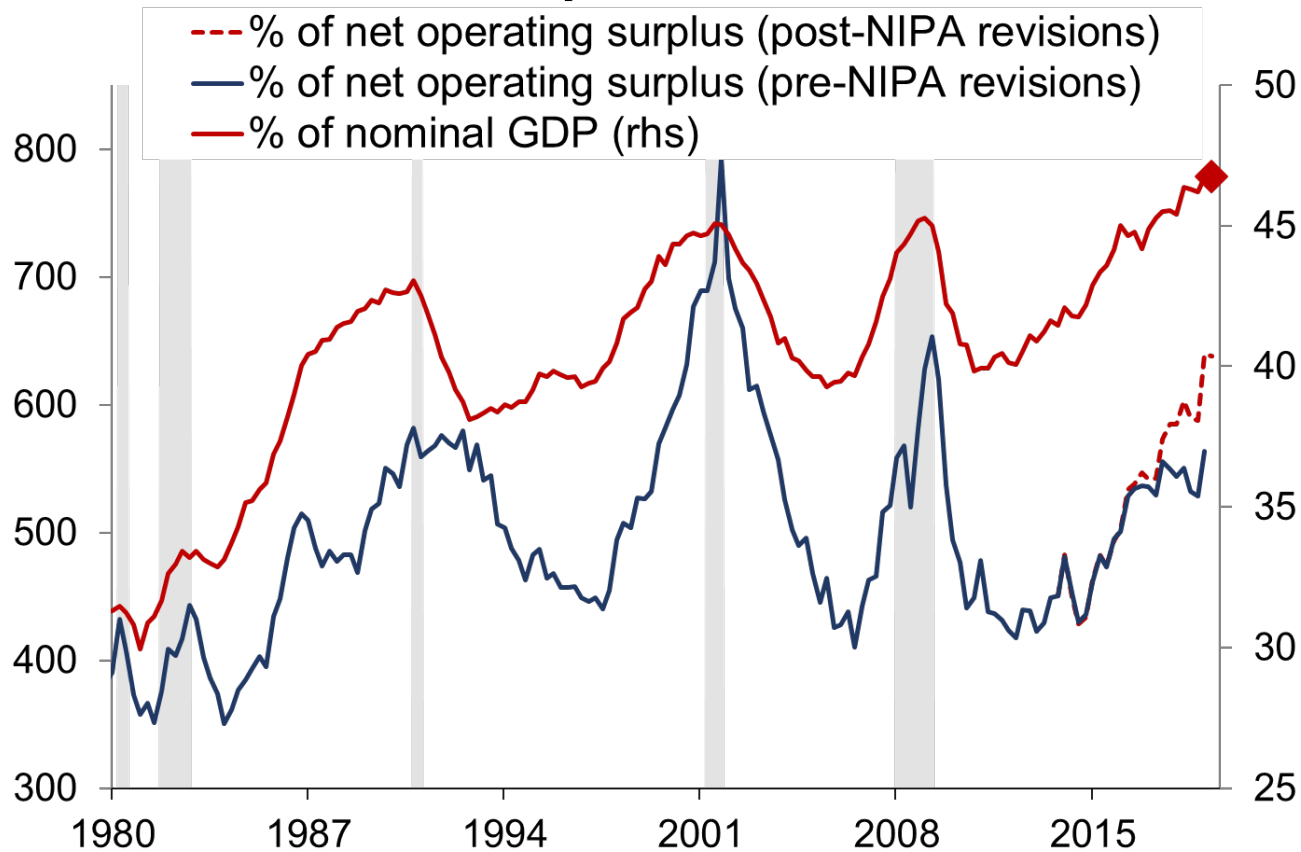


Not shown:
Truck transportation
-1.46



Elevated corporate leverage albeit with low interest expense

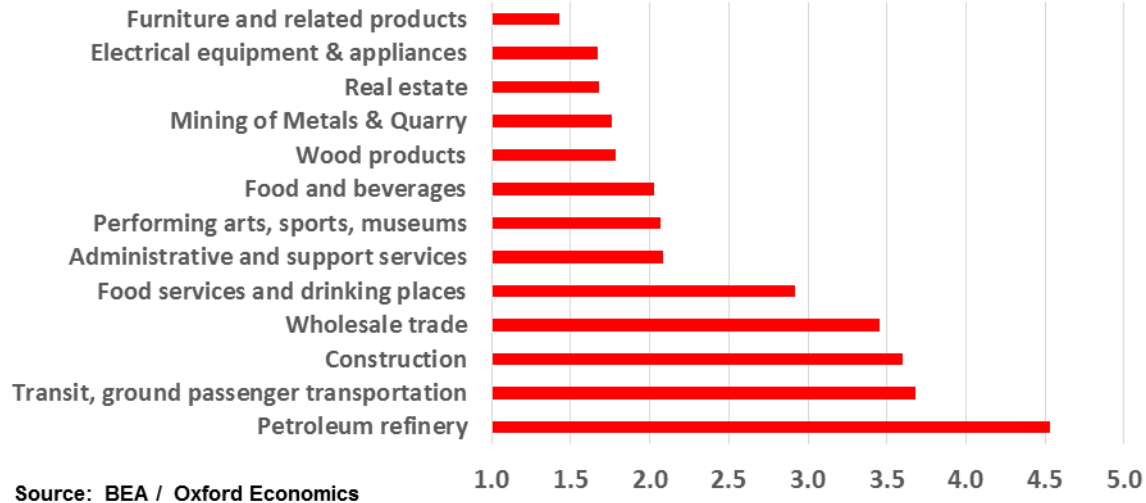
US: Nonfinancial corporate debt



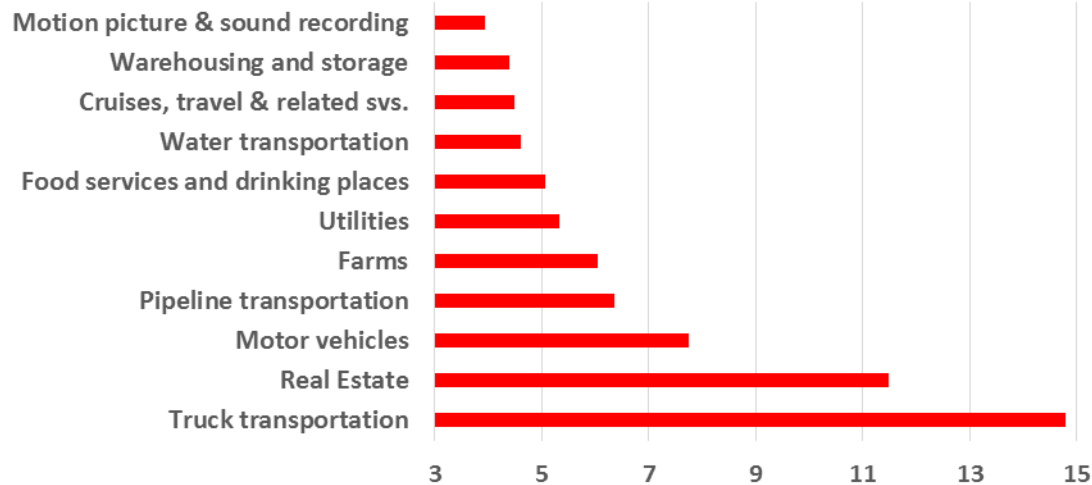
Source : Oxford Economics/Haver Analytics

Industries with highest leverage at start of 2020

Depreciation Cost of Sales (100*Depreciation / Sales)



Financial Leverage (Debt / EBITDA)



Ranking of Sectors most vulnerable to the sudden stop

- Education, Media and Entertainment
- Transportation and Utilities
- Real Estate
- Motor Vehicles
- Agriculture

Composite Rank (out of 55)		Financial cushion		Leverage		Structure
		FCF Ratio	Interest Cover	DCOS	Debt/EBITDA	Links
43	Amusements, gambling, recreation	55	17	36	1	51
44	Broadcasting & telecommunications	37	48	42	36	1
45	Farms	40	28	44	47	9
46	Truck transportation	31	19	37	31	55
47	Motor vehicles	39	40	20	51	24
48	Cruises, travel & related svcs.	33	35	16	41	53
49	Utilities	50	49	50	46	1
50	Water transportation	48	36	34	41	37
51	Pipeline transportation	46	50	53	49	1
52	Motion picture & sound recording	47	30	51	39	38
53	Truck transportation	32	55	31	54	38
54	Real estate	21	51	47	53	42
55	Educational services	51	47	38	38	48

Ranking of Sectors best positioned for the recovery

- Construction and related materials
- Software and internet
- Refineries
- Wholesale distribution
- Metals & Machinery

		Financial cushion		Leverage		Structure
Composite Rank (out of 55)		FCF Ratio	Interest Cover	DCOS	Debt/EBITDA	Links
1	Construction	3	4	3	29	24
2	Computer systems & related	26	7	18	11	1
3	Petroleum refinery	1	3	9	7	48
4	Furniture and related products	17	15	5	24	9
5	Fabricated metal products	18	6	11	23	24
6	Textiles & mills	8	10	13	27	24
7	Wholesale trade	4	27	6	40	9
8	Wood products	10	33	7	21	24
9	Electrical equipment & appliances	15	20	23	14	24
10	Primary metals	20	31	15	9	24
11	Software & publishing (excl. internet)	41	1	49	4	1
12	Machinery	24	25	22	13	24

THANK YOU!

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