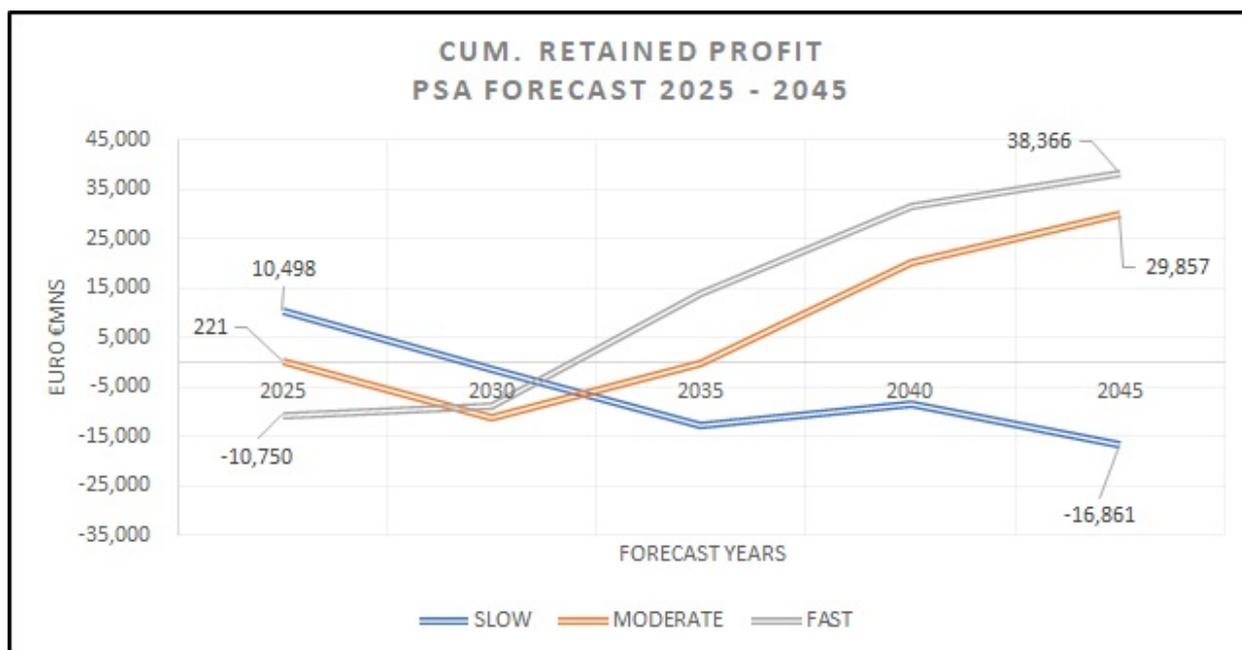


Will your franchise win in the NEV wars? Part 8: PSA

This post is the eighth of a series reviewing the financial resilience of seven major auto makers and their ability to make profits during the transition from conventional to electric vehicles. The auto-makers reviewed are Daimler, BMW, Volkswagen, PSA, Ford, General Motors and Toyota. The first post asked where they might get the money to fund the transition to new energy vehicles (NEV's). The second gave the financial results for each firm under three scenarios based on the speed of adoption of NEV's: SLOW, MODERATE and FAST. The rest of the posts summarises the outlook for each firm individually taking into account its publicly stated strategy for the transition. This post assesses PSA.



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he Financial Forecasts. Its score, squeezed between GM and Ford, reflects its operating leverage and profit margins. Its 5.7 leverage is the same as Ford, a little lower than GM's and PSA's long term profit efficiency (operating profit/gross profit) is poorer than GM and better than Ford. Given its stated electrification aspirations it seems to be following a SLOW adoption scenario path.

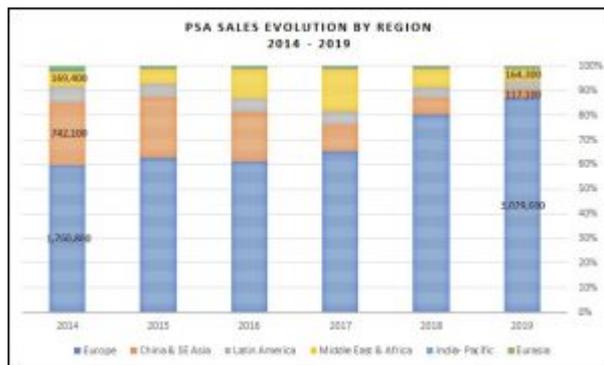
In Financial Resilience it ranks #2 overall, due to the dramatic and successful turn-around, completed between 2013 and 2016, and the sales boost effect of the successful integration of GM's European brands, Vauxhall and Opel and their turn-around to profitability since 2016. Others would argue that, if a longer view is taken, its resilience is low (See pdf here: [Resilience-league-table.](#)) Although it outranks all others in Profitability, this is a relative,

rather than an

OEM KPI SCORES	FORD	TOYOTA	GM	VW	DAIMLER	BMW	PSA
REVENUE & GROWTH	47%	53%	40%	77%	73%	60%	73%
PROFITABILITY	31%	66%	63%	40%	28%	49%	89%
CASH FLOW	80%	67%	47%	73%	60%	47%	53%
LIQUIDITY AND DEBT	28%	72%	60%	52%	92%	76%	48%
OPERATING EFFICIENCY	53%	83%	60%	65%	60%	55%	65%
SHAREHOLDER RETURN	40%	72%	60%	36%	62%	72%	63%
FINANCIAL RESILIENCE	46%	69%	55%	57%	63%	60%	65%

OEM RESILIENCE SCORES 2018

absolute result, but is impressive nonetheless. Its no surprise that its next strongest area is Revenue, where it ranks #2, mainly due to its acquisition and turnaround of GM's former European brands. Beyond these areas PSA results falter. It ranks #5 in Cash Flow and #3 in Shareholder Return. Cash flow is boosted by the income stream from Vauxhall/Opel. Free cash flow as % of sales is negligible, but is at least positive. Shareholder Return is helped by its share price growth mostly, rather than its return to dividend payments since 2016. Operating Efficiency is ranked #2=, impaired by PSA's almost negative net working capital.

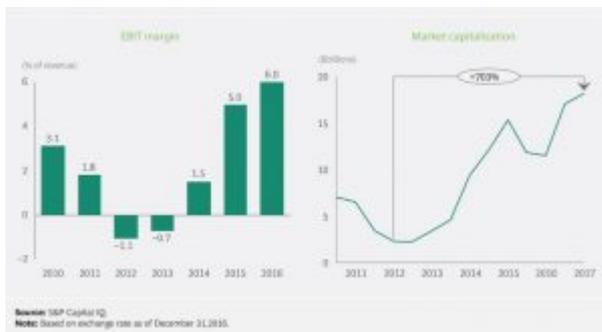


Peugeot experienced a severe cash crisis during both the global financial crisis and the Euro crisis. It reported a Euro €5BN loss in 2012, reducing its equity by nearly 35%, requiring re-financing and state intervention. It lost a further Euro €2.5BN in 2013.

Understandably, between 2008 and 2016, PSA had survival, rather than growth, as its first priority. To raise equity in 2013 PSA sold 14% of the firm to its Chinese partner, Dongfeng, and a further 14% to the French government. Each paid around €800MN for their stake. It tapped shareholders for €1.2BN via a rights issue as well. A little earlier that year, GM sold its 7% stake in PSA to institutional investors for €228MN (This investment was worth worth \$1.1BN by 2019). To raise more cash, PSA set up a credit line of €2.7BN. The main losers have been PSA's most loyal supporters, the Peugeot family itself. They saw the value of their holdings tumble from €16BN to €4.5BN. But, if the family trust had retained their stake and invested more, as Thierry Peugeot, former PSA chairman in 2013, requested, they would have recouped all of their losses and retained control of the firm.



With new money in place by 2014, PSA launched a turn-around strategy named 'Back in the Race' with two strategic tasks. First, it repositioned its brands: Citroën as a value/budget brand, Peugeot a mid-market brand, and DS as a premium brand. Second, with market focus regained, it began to thin out its 45 car model range with the aim of slimming down to 26 by 2022. The cost savings were used to re-energise sales in Asia and Latin America. Next, in 2016, PSA launched a digital transformation programme named 'Push to Pass'. Its task was to push data to the customer directly, on such issues as service reminders, fuel usage, etc. More importantly for dealers, the entire sales process was placed onto a digital platform enabling the buyer to configure, order and finance a car online in around 30 minutes, without visiting a showroom. It connects staff globally too. Designers and engineers access R&D data via the cloud. Employees are connected via a social media app.



The positive impact on profit margins and share price has been dramatic, according to BCG. There's no doubt that PSA had a similar market focus and cost reduction plan in mind for Vauxhall-Opel at the time of acquisition. It has cut working hours at Opel citing, "Production costs were over 50 percent higher than at its French factories." In 2017 PSA announced that all Opels will move to a PSA

platform and PSA will reduce the number of platforms for the brand's cars from nine to just two. It spelt out a similar strategy for power-trains, reducing from 10 combinations to 4 in the future. PSA expect annual savings of €1.1 BN by 2020, bringing Opel into profitability.



PSA's EMP and CMP Vehicle Platforms

While the ratios for Groupe PSA have moved in the right direction in the last five years,

fundamental questions remain. Underlying profitability is limited by Peugeot's core product offer - selling small cars with low profitability in Europe. Its a European producer whose dependence on Europe has deepened while its own over-capacity has increased, in a region where structural over-capacity is already significant. It is now Europe's second largest producer, with 17% share of a market that is hypercompetitive. It has acquired GM's European operations, for €2.2BN, when, arguably, their products compete head-on, so have limited incremental sales potential. It's clear that PSA understand the potential of Opel - 'German' brand, left-hand drive, factories located within the EU, multiple potential export markets. Vauxhall's potential is less clear - 'British' brand, right-hand drive, factories located outside the EU, few potential export markets. They have asked the management at Opel to come up with a strategy for both brands and their assets. Its hard to shake off the concern that Ellesmere Port, Luton and the Vauxhall brand may ultimately be a casualty of the plan.

What is PSA's NEV strategy?

	Europe	China & SE Asia	Latin America	Middle East & Africa	India- Pacific	Eurasia
2019	86.8%	3.4%	3.9%	4.7%	0.8%	0.4%
2018	80.1%	6.8%	4.5%	7.5%	0.7%	0.4%
2017	65.5%	10.7%	5.7%	17.0%	0.7%	0.4%
2016	61.3%	19.7%	5.8%	12.2%	0.6%	0.3%
2015	62.7%	24.7%	5.3%	6.1%	0.8%	0.4%
2014	59.9%	25.3%	6.8%	5.8%	0.8%	1.5%

PSA Regional Sales Evolution: Split of Total Sales by Region showing increased reliance on Europe

PSA had an early start with electric vehicles. Back in the mid-1990s, the firm produced electric versions of the Citroën Berlingo, sister company Peugeot built an electric 106 and, before that, a re-chargeable 205. In 2011 it offered two EV's, the Peugeot iOn and the Citroen C-Zero, both re-branded Mitsubishi i-MiEVs. At the same time it also had a diesel plug-in hybrid (PHEV) minivan which, sadly, was a commercial failure and was quietly abandoned.

UNITS	Europe	China & SE Asia	Latin America	Middle East & Africa	India- Pacific	Eurasia	Total
2019	3,029,600	117,100	135,700	164,300	26,600	15,600	3,488,900
2018	3,106,200	262,600	175,300	292,000	26,500	15,300	3,877,900
2017	2,378,600	387,300	206,300	618,800	26,100	15,200	3,632,300
2016	1,930,300	618,400	183,900	383,500	19,900	10,500	3,146,500
2015	1,864,000	735,700	157,100	180,200	23,800	12,000	2,972,800
2014	1,760,800	742,100	199,900	169,400	22,400	43,800	2,938,400
2013	1,628,700	563,800	302,700	227,000	21,000	74,400	2,817,600

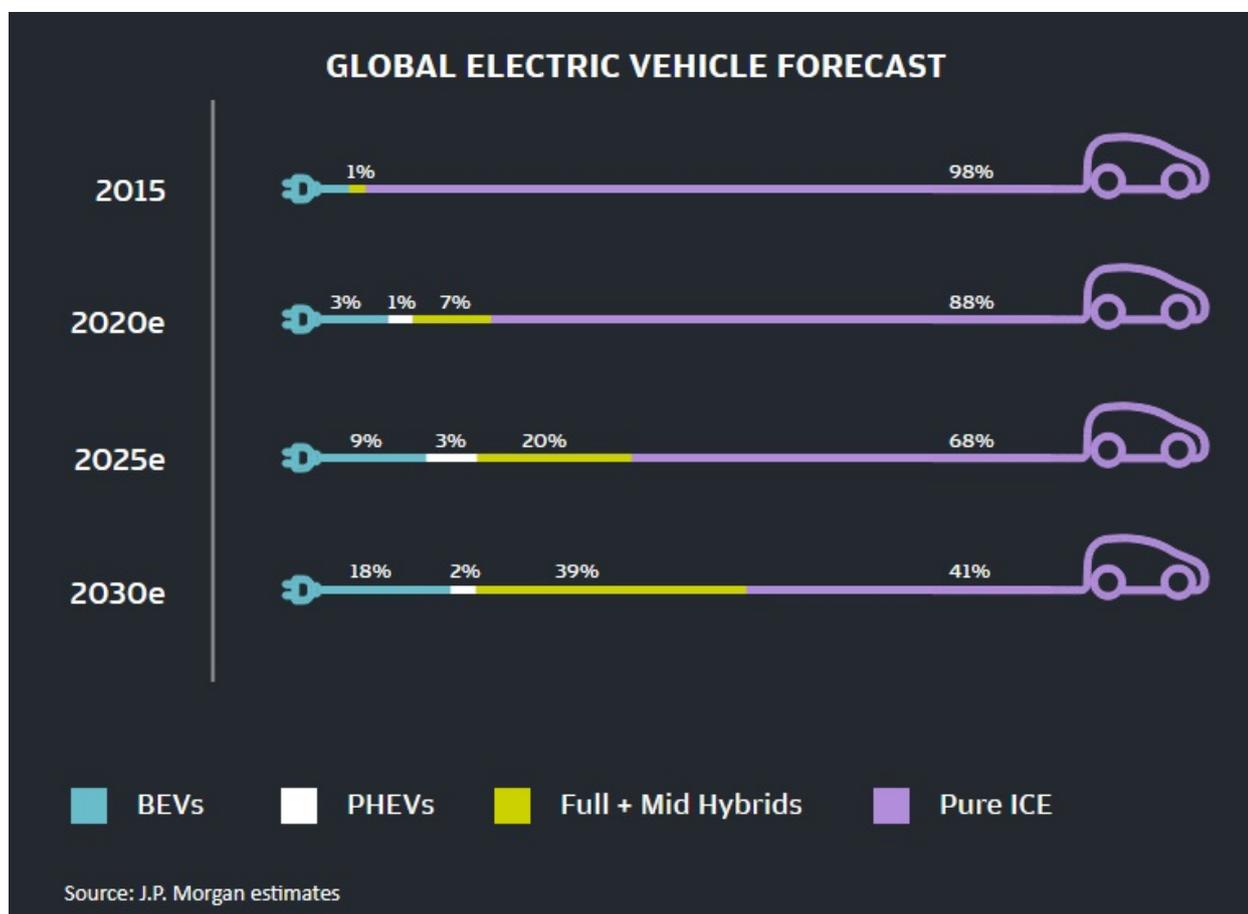
PSA Units Sold by Global Region 2013_2019

However, their current plans are much more ambitious. As part of the 2016 'Push-to-Pass'

plan, PSA stated its intent to rationalise and reduce its platforms. In 2013 it launched two multi-energy platforms, the Efficient Modular Platform 2 (EMP2) and the Common Modular Platform (CMP), the e-CMP platform being developed jointly with Dongfeng Motors specifically for EV's. PSA announced their initial all-electric aspiration in 2016, aiming to use the e-CMP for the 208 and DS3 models from 2019. This was to be twinned with a range of PHEV's, using the larger EMP platform, for the 508 and 3008 models in the same year. Clearly, PSA favour a multiple-power train approach – EV, PHEV and ICE, both petrol and diesel. With these scalable platforms PSA intend to reduce the overall number of platforms in use from six to two – both capable of running petrol, diesel and electrified power trains. It is these platforms that will carry the 7 new plug-in hybrids and 4 new all-electric models announced for 2021 as well as the existing ICE versions.

Battery production is also on their drawing board. PSA and SAFT, a subsidiary of Total Oil announced a JV to build two Giga-factories – one in northern France and the other in Germany – to produce 48GWh annually. The investment of €5.0BN includes €1.3BN from the EU. It is planned to be on stream by 2030.

What drives these plans is a simple business forecast. PSA have made two assumptions: the first is that the pace of the transition will be slower than EV enthusiasts believe; the second is that both ICE and PHEV will dominate the technology at least until 2030. They are not alone in this assessment. BMW have based their strategy on a similar view and so too have the main US auto-makers. Recent news from **China**, the world's largest NEV market, re-classifying Hybrid's as "passenger cars with low fuel consumption" will have encouraged them. These now receive fewer negative points in the China's emissions quota system.



T h e P S A f o r e c a s t l o o k s a t

three key markets up to 2025 – North America, Europe and China – and sees distinct trends in China. There, PSA estimate that BEV’s will be dominant in the NEV market by 2025, taking 78%, with PHEV’s taking the remainder, 22%. In Europe and the North America they envisage a much brighter future for PHEV’s in the NEV market. In Europe they forecast that BEV’s will take 45% of the market and in North America only 33%. So, in the view of PSA, PHEV’s have a continuing and stable market, hence their production and launch plans.

Just as importantly, PSA forecast that the combined NEV share will only be around 12% of the global market by 2025. The rest of the world will still be using ICE vehicles. In this estimate they are closer to **UBS**, who’s 2017 forecast put global NEV sales at 19% (16.5MN) by 2025, but a long way behind **J.P Morgan’s** 2018 forecast of 32% (28MN units) by the same time.

	Europe	China & SE Asia	Latin America	Middle East & Africa	India-Pacific	Eurasia
2018	18,675	11,984	21,917	9,596	55,774	36,405
2017	19,452	7,539	21,764	4,808	46,973	31,382
2016	20,183	5,160	20,560	6,057	46,030	32,286
2015	20,764	5,062	23,017	14,639	38,739	29,000
2014	21,314	5,161	19,750	13,973	49,152	19,543
2013	21,540	5,761	17,978	12,502	47,381	17,876

PSA Revenue per Unit Sold by Region

Why is the accuracy of these predictions so important to PSA? First, their dependence on the European market is significant – 87% of total volume in 2019. The slower that Europe transitions to NEV’s, the lower will be the financial demands made for R&D and write-off’s of legacy assets and the longer their payback on legacy investments in ICE and PHEV technology. Second, PSA sales in China have been lack-lustre and sales in North America are non-existent. PSA have made clear that it wants to return to the **US** and that it has **re-structuring** plans with its oldest partner in China. Third, Peugeot generates uneven but important revenue streams outside of Europe. After taxes – around 58% – India Pacific generates more revenue per car than France. In Eurasia (Russia, Ukraine and Iran) too, premium pricing is possible. The weakness is not just that all their export markets have declined in recent years but, that they are open to significant political risk which a modernised line-up, including NEV’s will not resolve. US sanctions have undermined efforts in Russia, Iran and China. Its biggest Latin American markets are in poor economic shape. Argentina and Brazil went into financial crisis simultaneously in 2014. In 2020, Argentina remains on IMF life-support while Brazil remains stagnant.

Can PSA Win The NEV Wars?



There are four 'must-have' elements for a conventional auto-maker who wants to adopt electric vehicles: first, the senior management must be committed and aligned with the strategy. Second, they need the money to fund the technology and the transition. Third, the OEM requires control of battery production and technology. Otherwise, much of the

potential profit is in the hands of the battery supplier. A number of Giga-factories might be needed in PSA's case. Finally, a dedicated EV platform is required. It costs more but, without it, the vehicles produced are, at best, an acceptable compromise. For a manufacturer aiming at the mass-market, such as PSA, two additional factors are critical: low vehicle build cost and volume market access. In this assessment the possible merger with FCA is considered

What is PSA's CEO Carlos Tavares' view of NEV's? Mr. Tavares is reportedly critical of electric cars. In October 2018, for example, he was reported as saying that OEM's should not be paying for charging infrastructure. He concluded that, if politicians are pushing zero-emission mobility, they should have governments pay for that. That's the opposite approach from Elon Musk at Tesla who has already funded 15,000 chargers world-wide.

Tavares' response to joining the BMW, Ford, Daimler and Volkswagen joint venture called Ionity, which is rolling out its own network of high power renewable charging stations across Europe, was **"Is it profitable?"** But, maybe reluctantly and maybe late, PSA have actually delivered BEV's - the Corsa-e, e-208 and e2008. Fiat-Chrysler, currently a potential merger partner, have only delivered the Fiat 500-e so far.

Is Peugeot's top management aligned? The turnaround of PSA since 2013 and the return of Opel to profitability within two years demonstrates convincingly that PSA's top executive management has the capability to develop and implement winning strategies focused on cost cutting in Europe. But, strategic alignment is more questionable. PSA's connections with the French government are historic. Along with Renault, they received a Euro €3BN loan bail-out in 2009, as well as an equity injection in 2013. However, strings are attached to the 2013 bail-out. There are two French government directors on the board who are primarily interested in the €800BN/14% equity stake and the fate of the 90,000 French employees. But there are further strings attached that have other goals. Dongfeng Motor Corporation - who also have a 14% equity stake - are a Chinese government state-owned enterprise(SOE). Their price was access to Peugeot's technology and to its European distribution network. PSA's second Chinese partner is Chang'an. Yet another Chinese SOE. Many observers consider that the development goals of France, a member of the EU, and China are not aligned concerning the pace of vehicle emissions and balance of trade.



东风汽车公司

DONGFENG MOTOR CORPORATION

Reduce its dependence on Europe by expanding in China? PSA has reiterated the importance of China to its strategy, but its experience in business outside the EU must be disappointing, even to them. The joint-venture with Dongfeng was established in 1992. At its height in 2015 PSA sold 700,000 units. By 2018 Dongfeng reported losses of \$552MN, as sales fell to 250,000. In 2019, they fell to 100,000 units. Dongfeng has production capacity for over 840,000 units, so its capacity utilization was 13%. PSA's JV with Chang'an, another Chinese government SOE, sold 4,000 units in 2019 from a factory with 200,000 unit capacity. Their utilization was 2%. Both Chinese partners complain that the French carmaker's troubles in China include its perceived arrogance, inefficient localization and poor branding efforts. Its disputes with Dongfeng included disagreements over marketing and what new models would be offered. Industry watchers say PSA will have to listen more to its Chinese partners, especially if it wants to retain Dongfeng, and introduce successful new models for increasingly sophisticated local buyers.

Dongfeng has many options beyond PSA, so its partnership with Dongfeng may not last for other reasons: the 14% stake held by Dongfeng is currently valued at €2.2BN. Selling it may assist Dongfeng to recoup some of its recent past losses and help it avoid future ones. Sales of PSA products in China have collapsed and the 3000 strong PSA China dealer network has shrunk by 80%. The showrooms that remain sold an average of 400 PSA vehicles each in 2018. Renault dealers in China delivered 204 vehicles each in the same year, even more discouraging. Dongfeng's partnerships with Nissan and Honda remained much more successful in 2018: 1,431 units at Nissan dealers and 761 units at the Honda sites.

What about growth in the USA and Canada? Looking at North America, specifically the US, there too PSA has a troubled history. PSA left the US in the 1990's faced with dwindling sales - 4,261 in total in 1991 - for similar reasons to their more recent failure in China: sales dwindled away year after year as PSA tried to sell cars that were not appropriate to the local market. If the FCA-PSA merger were to proceed, they would acquire a significant bridgehead into the US market.

How successful have recent PSA alliances been in Europe? Both GM and PSA had sound reasons for trying the GM-PSA Alliance in 2012. Both firms were losing money in Europe. PSA reported that its car-making division had made an operating loss of €192 million in 2011. GM Europe is said to have made cumulative losses of \$14BN between 1999 and 2011. But, while the Alliance was hailed as a route to make joint financial savings by sharing vehicle platforms and components, it collapsed ignominiously within two years having failed to meet any of its stated goals.



FIAT CHRYSLER AUTOMOBILES

In 2019 FCA and PSA agreed a 50-50 share merger to create the #4 global auto-maker by sales. Leaving aside the obstacles posed by a lawsuit filed by GM and objections from EU regulators, the possible FCA and PSA merger has also been hailed as an opportunity to share the cost burden of new

technology and achieve elusive scale economies. Potential annual savings of approximately €3.7 billion have been suggested – roughly a third of the combined operating profits of the two firms pre-merger. But, those savings could accelerate if PSA could breathe new life into FCA’s sales in China, as well as its own. Jeep – an iconic SUV brand took less than 1% of China’s 9MN SUV market in 2019. Few doubt the capability of the PSA executive management team, however, there are three obstacles in the way of these savings. First, the combined production capacity of the new group will be 14MN units but it has a combined sales volume of 8MN units. So, their combined capacity utilization is 58% or 6MN units surplus. Second, the combined firms have 400,000 staff, of which 150,000 are based in France and Italy. In theory, almost half of these people are surplus to requirements. Third, the combined group is heavily dependent on A and B (minicar and small) segments in Europe. These segments are dwindling in size and increasingly unprofitable because emissions rules are forcing entry level cars to add complex catalytic converters, making them less affordable. PSA has already axed the Opel Adam and Karl minicars because it became uneconomical to make these entry level vehicles emissions compliant. Meanwhile, Ford has dropped its Ka model, which shared a platform with FCA’s Fiat 500.

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ated EV platform and access to their own battery production and development?

Yes, to the platform, thanks to the partnership with Dongfeng. No, to the battery production yet – but maybe soon. Instead of developing their own facility PSA are backing the EU Strategic Battery Alliance. In December 2019 they announced two 32 GWh per year lithium-

ion battery cell plants: one at the Opel factory in Kaiserslautern, Germany and the second, at a location to be agreed, in France. In 2020, they announced a JV with Total to develop two more 24GWh plants to be operational at capacity by 2030. For their China-built cars Dongfeng supply the batteries. One other option could be to buy batteries from Tesla. FCA's current CEO Mike Manley suggested that it was a possibility for FCA in November 2019, so it may be available after the merger - if that goes ahead.



PSA Groupe EV Concept Car: DS E-Tense

Does PSA have access to a volume market? It has Europe and fragile access to China. If the FCA merger is approved and gets through its litigation hurdles, the combined firm would have access to the US - FCA sells over 2MN units in the US already. In terms of product, PSA Group brands have had separate EV programs in the past, such as BEV Berlingo compact van, the BEV E-Méhari, and the DS E-Tense BEV supercar, but their biggest EV market success has been the Ampera E, which came with the Opel acquisition. The vehicle has been popular in Europe, selling 2,731 in 2018, but being based on GM's Chevy Bolt EV, the supply has been restricted since PSA acquired Opel. However, its success may have kick-started a re-think about the future of EV's within PSA.

The current auto industry transition provides threats and opportunities to every player. Groupe PSA has shown itself capable of rapid and successful improvement of its cost base which has reinforced its importance as a major producer of conventional vehicles in Europe. However, in terms of making a transition to NEV's many observers have reservations. Its product offers and investments so far suggest that SLOW adoption has been their preferred path up to 2020. In fact, **Global Data Thematic Assessment_Automotive** model places PSA #54 out of 55 global automotive companies in terms of readiness for the transition. Its chosen partner FCA rank #53 in the same assessment.

You can link to Global Data's spreadsheet here:[Global Data Thematic Assessment_Automotive](#)
