

More Thoughts on Coronavirus and Impact on Connectors

These observations are based on present conditions at the time of this publication.

Trump administration is preparing to send \$1,000 checks to all adults and giving a payroll holiday. Predictably Congress will want to sweeten the deal for some, and not send checks to “millionaires”. Squabbling over who gets it, and the impact on national debt may delay this shot-in-the-arm response.

The unprecedented pandemic crisis will have a significant impact on the connector industry:

- This will be like no other downturn: quick and very ugly.
- With the possibility beyond April of a three- to six-month shelter in place quarantine.
- Major hit on car sales – up to 75% in the second quarter.
- Leading to an inventory glut in the third and fourth quarters.
- Online sales, where well positioned, will flourish. Not the case for most automotive sales.
- Other markets that depend on retail sales (consumer, computer, and telecom) will see drops in the 25-50% until this shelter in place order is over.

Examples:

Ford

- Offering delayed payments on leased vehicles.
- Shutting down production temporarily in Europe.
- Assuming car dealers will make their own decisions

Fiat Chrysler Automotive

- Has a unique challenge due to Italian pandemic and travel restrictions?
- FCA will suspend all manufacturing across Europe until the end of March at the very earliest
- It will be nearly impossible to communicate as many employees are at home

General Motors

- UAW and big three agree not to close manufacturing plants, in exchange for additional safety measures and closer adherence to CDC guidelines. This includes partial shutdowns for thorough cleaning of plants.
- This will have minimal effect due to bloated inventories but could be extended.
- GM is instigating additional medical screening for all visitors, no entry if you have been to China, Iran, Japan, Korea, or any place in Europe

Dell Technologies

- Anticipating a major sales impact in the range of 50% during this quarter.
- Drop could be lessened by Dell’s strong online presence and perhaps more people buying new computers to use at home for work and home schooling.
- Dell’s current position in servers is #1
- Since much of its assembly is in Asia, there could be supply chain issues.
- Work from home for all employees capable of doing so until further notice.

- Canceling Dell World Expo and other trade shows and going virtual.
- Donating funds to fight the crisis:
 - \$284k to China to help procure in-demand materials “including surgical masks, protective clothing, and eye protectors for local hospital”.
 - \$850k worth of IT Services to the Center for Disease Control and Prevention in Hubei province. \$3M in funds and in-kind technology donation to help COVID-10 efforts worldwide.
 - Use of Dell advanced computing clusters to help track the spread of this pandemic.

HPE

- HP may take a huge hit on sales due to Asian supply chain and plunge in store traffic.
- Online sales may actually increase.
- HPE potentially 25-50% hit on sales, although servers may be less affected than PCs.
- No face to face vendor meetings through April and possibly beyond, with only critical hands on discussions.
- Canceling most regional trade shows until further notice.
- HPE expo in San Francisco in June presently remains scheduled.
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IBM

- Has not announced any closures or work from home- anticipate local decisions on this, starting with its Westchester County, NY epicenter of one COVID cluster.
- Cancels biggest developer conference of the year, replacing it with a digital event.
- Travel restrictions placed on employees through the end of March.
- 2019 = \$77B revenue, 48% gross margin, \$13B and net cash from operating activities of \$14.8B
- 9,300 patents awarded in 2019
- Enterprise servers, cloud computing, quantum computing, artificial intelligence, Blockchain and Red Hat software are current areas of focus.
- IBM completed divestiture of X-86 server business to Lenovo and could be eyeing other hardware moves in 2020. Don't be surprised if IBM re-enters the PC business with a high end, game-changing product.

Lenovo

- Lenovo may lose 25-50% in business during the current quarter or make up one-half of that online.
- Like others, Lenovo has donated 10 million yuan (\$1.44 million) to the University of Science and Technology of China to aid in scientific research on the coronavirus.
- Even after its IBM server acquisition, Lenovo is also following a path into software and advanced technologies in the 2020s.
- Lenovo's two acquisitions from IBM have lost money – up to \$3B since 2016
- Lenovo revenue:
 - \$51B fiscal 2019 – up 12.5% over 2018
 - \$45B 2018
 - \$43B 2017
 - North American manufacturing: Morrisville, NC, Monterrey, MX

Cisco Systems

- Offering extensive remote communications during COVID-19 crisis.
- Free video conferencing via Webex.
- Revenue
 - \$48B 2017
 - \$49B 2018
 - \$52B 2019
- Since most of Cisco revenue is from industry and government there should be somewhat less impact: 15-25%.