<u>**Citi Commercial Bank Podcast Series**</u>

Episode one: *The Mobility Ecosystem: Trends and Impact*

Huaijin: Hi. I'm Huaijin Bao, The Global Industrial Head for Citi Commercial Bank. We are started this podcast to share what's happening in the industrial space and how it impacts our corporate clients. There are so many things happening right now. For example, the auto industry is going through a significant transformation. It not only impacts the traditional auto industries, but across all industrial subsectors as well as the other industries such as technology, services, everything.

In this first episode, we will focus on mobility. And with me I have my partner, John Murray, who is the Global Sales Head for Industrials and Mobility in Treasury and Trade Solutions at Citi. You and I have worked together since October 2022 because of mobility.To give our audience a background we used to call this sector “auto”. Why today do we call it mobility or even emerging mobility?

John: Hi Bao thank you very much for inviting me to this podcast today. Very excited to share some ideas with you. To answer your question in terms of why do we look at this from a mobility perspective as opposed to just from an autos and OEM parts perspective?

If I think about the mobility ecosystem, it's really changing. It's evolving significantly and what does mobility actually mean? When I look at mobility, it's not just about the car. It's how you consume the car, how you buy the car. And so the players that are actually in the ecosystem are changing.

And therefore, when I think of it from a Citi perspective, what is it we want to do? What is the role that we want to play with our clients as the ecosystem evolves? If I step back and think about the players, that it's not just about those OEMs and the parts. But you've got the connected vehicle, you've got electrification.

The whole ecosystem is evolving with various different components and players taking part. As that ecosystem evolves today and you'll see disruptors as well. If you think about Tesla, Tesla is probably one of the major disruptors when it comes to electrification of the vehicle and how we consume.

Huaijin: That is true. You mentioned auto and auto parts and the expansion of the ecosystem, like the whole EV sector, are newly emerging ecosystems. Because of the electrification trend. And we see that in the old days, the industry in terms of sub sectors is well defined, but today it is really adjacent to each other?

The auto other parts company has to work with the battery companies which may link to metal mining or chemical space to produce autonomous vehicles. The auto companies must work with all the tech companies and the different service companies. So it is expanding. John, earlier you defined the ecosystem. My next question is, what are the megatrends impacting and transforming the mobility ecosystem?

JOHN: So I think there's a number of megatrends that are shaping the ecosystem as we look at it today. If I think about the electric vehicle to start with, you've already touched upon batteries and the mining, etc., if you think about how we're moving from combustion engines to electric vehicles, the charging infrastructure that goes with that, the players that are providing that charging infrastructure.

So that's one key theme that is really taking shape and that is being driven by the need to decarbonize and thinking about the environment. You then have the autonomous vehicle. We hear a lot about autonomy and the connected vehicle and how you look at that vehicle in terms of, you know, not just the car, but also the trucks as well, the hardware that's going into the vehicle, the infotainment that's going into the vehicle.

All of that is looking at how we are consuming and how the car is evolving. I think if you look at the manufacturing side of it as well, there's a lot happening in that space. And what you're seeing is that if you think about the US, the Inflation Reduction Act has actually really driven the concept of near-shoring.

A lot of the activity, the manufacturing is being brought closer to the US to either being onshore or to being near-shore. So you're seeing a lot of hubs being established, in particular in Mexico, where not only the OEMs themselves but their suppliers, their ecosystem are looking to relocate in order to benefit from the Inflation Reduction Act. You could look at Canada as well.

I think also what is interesting, are we going to go to the dealership to buy the car or to lease the car or we going to go online? Typically now you're seeing a lot of companies start to think about how do they sell online. Tesla is an example. You will go and buy your Tesla purely through online rather than going into a dealer.

So the way that we buy the vehicle is actually changing. As I say, the ownership of it. Will we own it or we actually hire it, rent it, lease it. It is expensive. And if you think of the consumer today, we're very used to subscription. We want to subscribe to things rather than to actually have the asset on our balance sheet.

We're looking at how do we just hire or lease that vehicle? That leads on to mobility, in terms of sharing mobility, do we own the car or are we going to share the car? I share my car. I share it with a friend of mine. I do so little mileage. So therefore, why would I want to own that car and have that outlet if I can share the car? Or will I get a Zipcar, just hire it for an hour when I need it?

The whole thing about shared mobility is changing and how we actually consume that vehicle on a day to day basis. And then I think what is driving a lot of this? A lot of the regulation that is being introduced by governments today, particularly around the environment and ESG is actually changing us and they are incentivizing us to look at how we consume the vehicle and what we're, you know, are we going to buy a combustion engine or are we going to buy a Tesla or an electric vehicle?

And the reason being is if you're getting tax incentives, you may be encouraged to look at alternatives. And that's what you're seeing in many, many different markets where individuals are being incentivized in order to actually look at that electric vehicle.

Huaijin: John, I think that's great insights. You do mention elevate around the IRA. I think what we observe is that the Inflation Reduction Act not only impact the funds flow to US in the OEM side, but largely around the electric battery side. And we all know the battery supply chain is in Asia. Whether it's with Korean companies, Japanese or Chinese companies– U.S. doesn't have the battery value chain.

And you and I talk about this in the past, like the joint venture trend in OEMs. In the past, OEMs will build up joint venture with other OEMs to get into the market. But these days we will see more and more OEMs set up joint ventures with the battery companies

JOHN: Absolutely. And maybe, Bao, if I just add, I mean, if you think about the amount of CapEx that's involved in terms of the battery manufacturing, you've already touched upon the mining, they've got to extract the metals. That's expensive. So not only is it that you're seeing new flows, flows coming from China investing into Mexico or China investing into Eastern Europe, but you're also seeing inter-Asia flows as well.

China into Vietnam, China into Thailand, but you're also seeing these strategic partnerships. You are seeing OEM going into partnership with companies that are battery manufacturers, but also you see tech companies that are also looking to play in the auto space. And that's where the ecosystem is completely evolving with different players. That's from my perspective with some of the traditional OEMs.

But Bao, from your standpoint, when you look at your client base within Citi's Commercial Bank, what trends and observations are you seeing when it comes to the different corridors and the way the flows are being established?

Huaijin: Yes, is quite similar, right? Because our clients are largely with the battery space or the autonomy driving space. So they follow their customer, follow their footprint to grow globally. And as you know, the entire battery supply chain largely are within Asia. Whether it's Chinese companies or Japanese companies or Korean companies. So we see massive capital outflow.

Our clients follow their footprint invested into North America, whether it's U.S. and Mexico or a little bit in Canada. And same thing– the European companies, particularly in the batteries space, also invested into U.S. But we also see a lot of mobility technology companies in U.S.

because they focus on autonomous driving, all the mobility technology software and they are going global very fast.

Even if they are just starting as a business, they keep expanding from the U.S. into different regions. So the whole ecosystem is really booming.

JOHN: And as we step back from a Citi perspective, what we're really focused on is what is it that these clients are going to need from their banking partners as the ecosystem evolves? What is it that they seek? Because not only is it the flows are changing, but the way they go to market and therefore they have to think about from a Treasury perspective, how do they finance it and what is it that they need to do when it comes to managing their working capital on a daily basis and how they go to the market? And what is it that they need to do in order to support the consumer?

Huaijin: You've already answered my next question. But given all the trends, what are the key implications for the corporates? You already touched their massive CapEx requirement because OEMs need to build new EV plant and the battery companies, the entire supply chain need to increase their capacity. There is massive capital needs in this sector and not only in their home country, but in all these global markets, whether it's North America, Mexico or Europe or even in Asia.
Can you share what else is very important in our corporate clients' mind?

JOHN: There's a couple of things that I think if I was sitting in their shoes that I would want to think about. Clearly, their business model is changing in terms of the manufacturing, in terms of the supply chain, in terms of how they go to market. So they need to think about how do they actually manage that working capital.

What does it mean? Because they have new business models. Secondly, they need to think about the new customer segments. Are they actually going to the dealers to sell their vehicles or are they actually selling direct to you and I as consumers? What are they doing about the parts aspect of it? Are they selling parts direct to the consumer or are we still going to the dealership in order to get the parts?

If we think about the flows that if you're buying a car, that's a huge amount of investment. Okay, 20, 30, 40,000 USD. If you're selling a car to an individual, that's one transaction, that's quite a low value. But if you're selling to a dealer, you're selling maybe ten or 15 or 20 cars. That could be a two or $3 million transaction.

They have to think about how they manage these flows. Are they dealing with lots of individual transactions or are they dealing with small, high value transactions? And there's a different challenge in terms of how they would have to manage that daily. I think also when it comes to their supply chain, if you think about a traditional combustion engine, you have typical suppliers that we all know, the Robert Bosch's of this world, but with the supply chain changing and you've got a lot more take, the battery manufacturers coming into it.

What is going in in terms of infotainment? I always remember I had met recently a Netflix finance manager when I was traveling and I Googled just to see partnerships, and it was a partnership with General Motors. So General Motors going into partnership with Netflix, you know that that's quite unique, that wouldn't have been there, you know, maybe five or six years ago.

As they have these different partners, different suppliers, what does it mean for their supply chain? How do they support these suppliers? Do the suppliers have the same level of liquidity that maybe their traditional suppliers have? So they need to think about how they will manage that. The other thing that I would think about when it comes to how the ecosystem is evolving, everything is being driven by data.

All of the data that we're actually creating. How do you deal with that data? How do you leverage it? How can you make it more beneficial to you as an organization, but also to your consumer? Can you monetize that data? So these are the sorts of things that I think, as we sit in the world of Treasury, what does that actually mean for them and how do they add value to their business?

And the other aspect that I haven't touched upon, a lot of this has been driven by the environmental and ESG. Treasuries today are now thinking much more about their KPIs. How do they support the business in terms of achieving the business ESG targets and goals? And I think Treasury is starting to think, what is it that they need to do in order to support the business as it moves forward into the next two, three years?

Huaijin: Yes. And you know, on top of that, look at the external environment. We talk about inflation. I mean, that is out of industry. However, that impact everything. Also, the fluctuation of the market. We do have a lot of clients reaching out to us when they think about investing out of their home countries say follow the trend, follow their customers, invest into U.S. or Mexico.

What kind of currency exposure they need to consider, how to manage that risk. John while you travel around the world visiting not only OEMs, but their supply chain, the whole ecosystem, what are the key areas of focus that corporates should consider in 2024?

JOHN: If I think about clients that I've met, I think there's probably four areas that as we think about 2024, where would we need to prioritize? Clearly there's an evolving ecosystem and therefore I think they need to think about their funding requirements. There's a huge amount of CapEx investment that is taking place in order to move from combustion to electrification. What impact does this have in working capital and also on the supply chain, what tools can they use in order to support that working capital?

And there I'm thinking maybe something from a sales financing perspective or the supply chain finance program. Clearly we've touched upon new business models. What does that mean? How do they collect funds from clients if they're selling online? How do they collect it if they're not necessarily going through dealerships? How do they manage those high volume, low value transactions?

And above all, how do they then manage their liquidity not just from a domestic, but from a global perspective? The evolving business model in the flows that we've touched upon in terms of east to west and west to east, how do they manage the cross-currency risk? How do they manage their FX risk? What are the implications? And then finally, from a sustainability perspective, as we touched upon earlier, they are more and more focused around the environment and ESG and how they fulfill their targets and their KPIs.

What is it that the bank can do to help them? Are the solutions out there, such as ESG time deposits, or ESG supply chain finance programs. And I think if Corporate Treasuries were to look at those four core points, i.e. funding needs, new business model, risk management, and sustainability and focus on them as we go into 2024, I think that that will give them good, solid foundations on how they can look at and how they manage their treasury.

Huaijin Thanks John for all the great insight! I would want to keep talking, but I think we're out of time. Thanks again for joining us and I'd like to thank the audience for listening. We really want to make this podcast more insightful, more helpful for you. If you have any feedback, any more topics you want to discuss, feel free to reach out to us.

Thanks again.
JOHN: Thanks, Bao, for allowing me to join this podcast today. As you know, we're very excited about what's happening within the mobility ecosystem and we're very keen to support our clients in this space as they look to grow. And at Citi, we are very keen to partner and bring our network and bring our solutions to our clients and be there for them as they grow within this evolving ecosystem.

We look forward to working with everyone as we move forward in 2024.

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