

# Strategies to de-risk our global supply of goods

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# Today's speakers



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# Agenda

- 01 Re-globalization and the new world order

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- 02 What is the data telling us

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- 03 How else can we think about risks

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- 04 Strategies to cope with it

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# Re-globalization and the new world order

# Re-globalization and the new world order

- Industrial policy interventions skyrocketed in 2021 and 2022
- Many countries including India, Canada, the EU, US are creating “Made in X country” campaigns – the EU for example now has its own “CHIPS Act”
- The U.S. is subsidizing green energy, semiconductors, AI, electric vehicles, communications.
- The re-globalization of our supply chains will come at a cost
- OECD predicts re-globalization will cut 5% from long term global GDP; The IMF says 1% lower short term, 2% lower in the long term
- AmCham Shanghai Survey: Geopolitical uncertainty #1 issue followed by sinking profitability since COVID and it hasn’t recovered
- A China “de-couple” is unrealistic - Risk diversification is more likely

# Big picture: globalization, growth and liquidity constraints

## Big-picture changes in the U.S. economy

Moving from pre-pandemic financial and real economy conditions to "what comes next"

1995–2020 pre-pandemic and pre-war era	Post-pandemic economy
Insufficient aggregate demand	Insufficient aggregate supply
Excess savings	Liquidity constraint
Hyper-globalization	Dichotomy of globalization Re-globalization/regionalization Industrial policy: Infrastructure buildout and energy transformation Digital globalization intensifies
Low inflation	High inflation
Low interest rates	Higher interest rates
Plentiful labor	Demographic constraints: Less labor

# What is the data telling us

# Construction spending: manufacturing spike

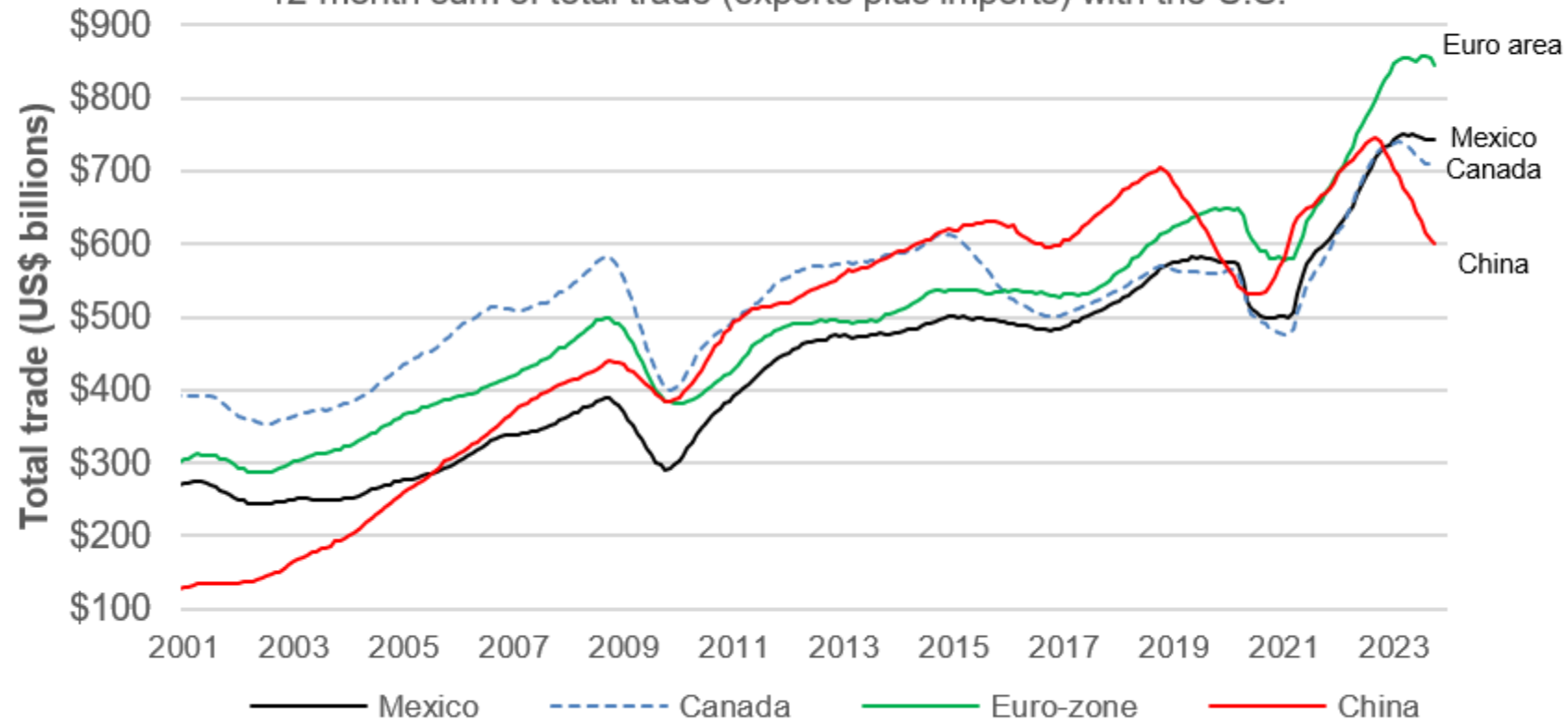


Source: BLS, Census Bureau, RSM US



## Mexico, Canada and the euro area have surpassed China as a U.S. trading partner

12-month sum of total trade (exports plus imports) with the U.S.



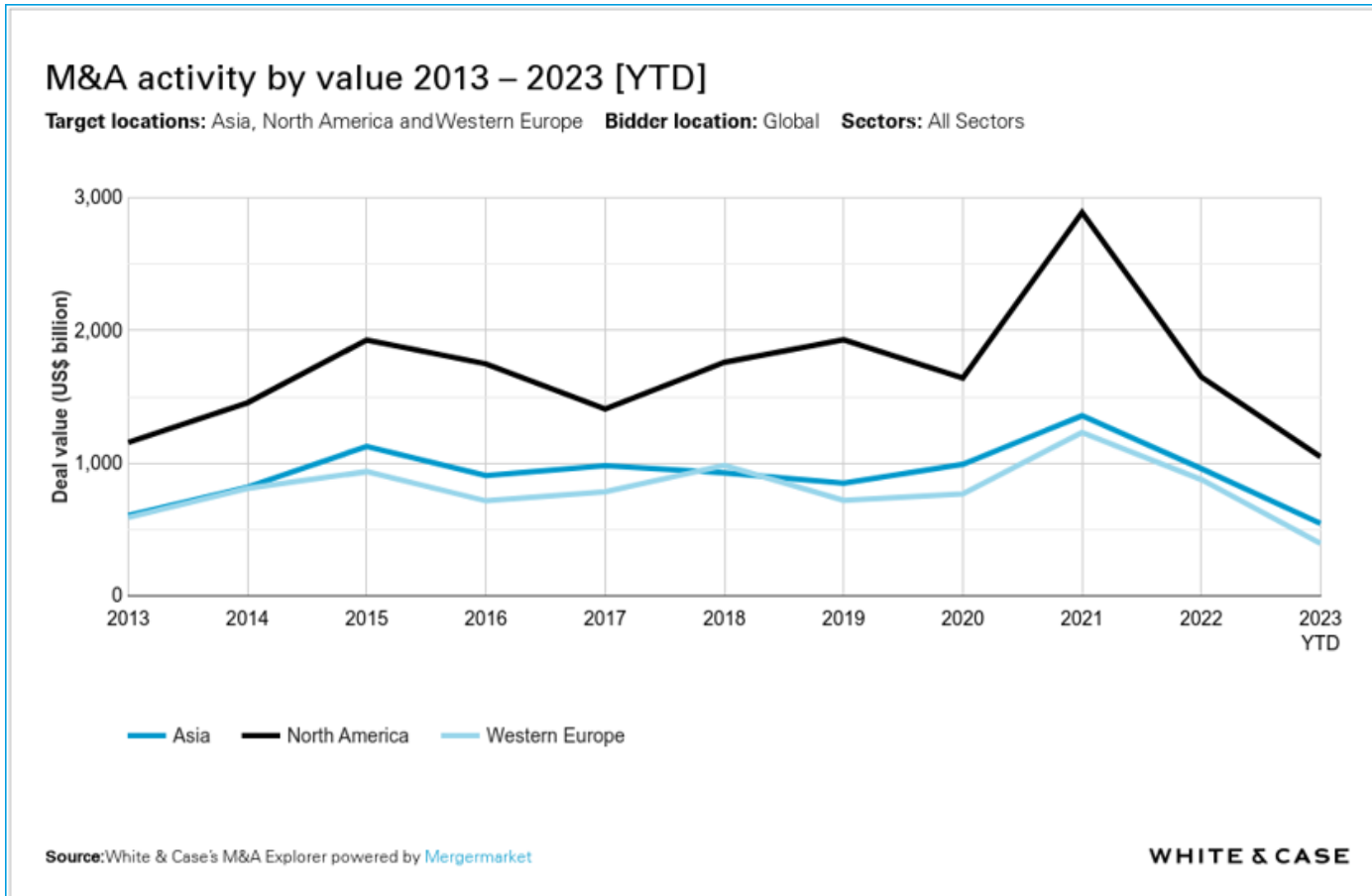
Source: IMF Direction of Trade Statistics; Bloomberg; RSM US

# 2023 - Q3 global and U.S. M&A



- PE Capital deployment declined 29%
- PE Selling is lowest in over a decade as exits fell 26%
- Volume of deals is outpacing value of deals
- Log jam of exits is holding back most deal making
- 55% of deals in H1 2023 were sponsors purchasing founder owned businesses
- Dry powder is mounting as fund raising continues
- Cost of debt is driving PE to grow value longer with average hold times reaching 4.2 years

# 2023 - Q3 global M&A value - North America, Asia, and Western Europe



Falling valuations are a working in two directions as lower valuations are being sought for high quality assets, PE and VC are holding them longer to continue to build value.

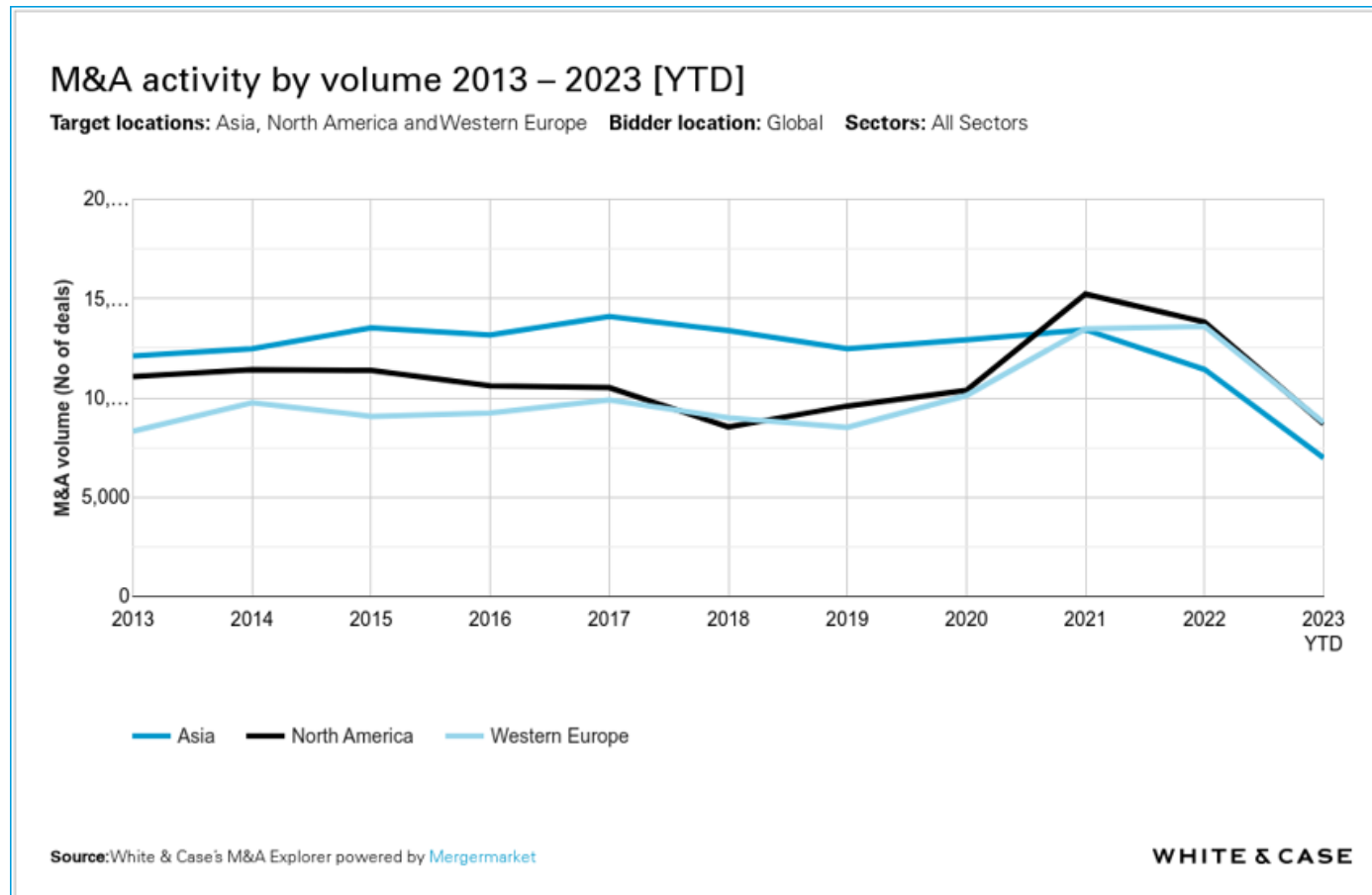
Fund raising continues to be strong in the PE world. Amassing dry power now will allow companies to take advantage of the break in the exit log-jam.

Valuations will likely rise quickly as the access to funds at lower rates begin to open the exit market

# 2023 - Q3 global M&A volume - North America and Western Europe

The decline of China deal activity volume began in 2021 and has outpaced the decline in US and Western European markets.

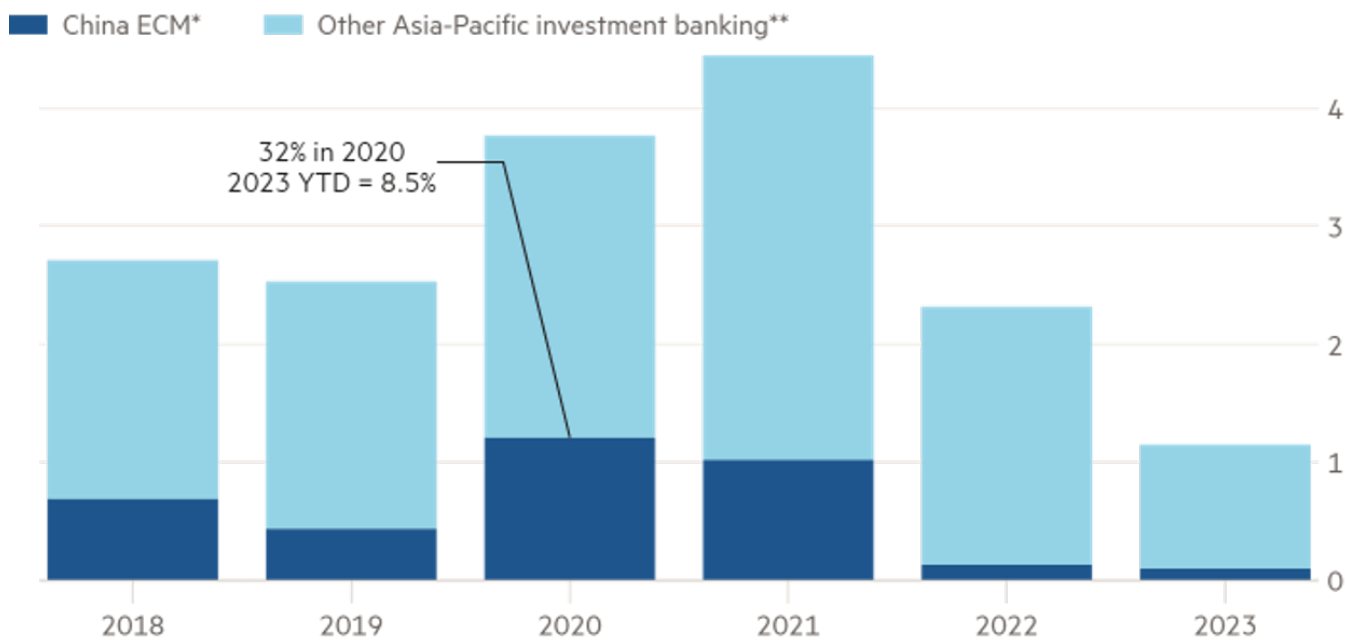
VC and PE exits have significantly declined over the past 18 months while acquisitions have been heavily focused on founder owned businesses as valuable targets



# U.S. Bank's ability to raise capital on Chinese listings diminishes

## US banks' China listings revenue drops

Goldman Sachs, JPMorgan, Morgan Stanley, Bank of America and Citi combined (\$bn net revenue)



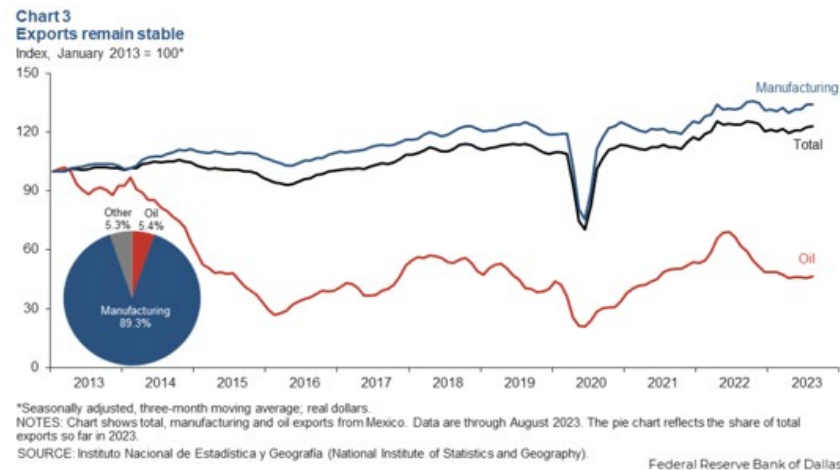
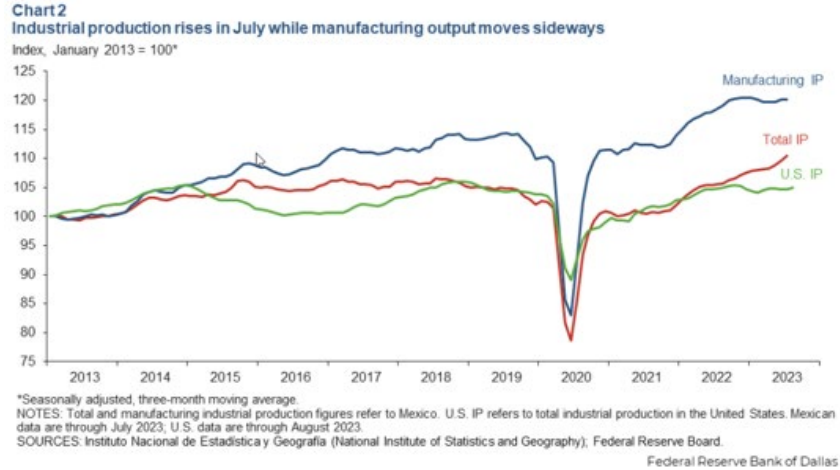
...2023 isn't looking any better

\* Excluding A shares. 2023 = year to date | \*\* M&A, ECM and DCM

Source: Dealogic

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# Mexico growth and incentives across 10 sectors for near shoring investors



Mexico is offering various tax incentives to businesses to promote economic growth and attract foreign investment. Some of the incentives include:

**Foreign tax credit:** Mexican corporations and individuals can credit for Mexican income tax purposes the income tax paid abroad in connection with non-Mexican source income.

**Tax credits and reduced VAT rate:** The Mexican government has issued special tax incentives for businesses in the border zone, including tax credits that effectively reduce the income tax rate from 30% to 20% for legal entities, and a reduced value-added tax (VAT) rate of 8%.

**Incentives for taxpayers:** The State of Mexico offers an incentive of an additional 8% in January, 6% in February, and 2% in March for taxpayers who have covered their tax obligations in a timely manner.

These incentives are aimed at promoting investment, job creation, and economic development in Mexico.

# Construction activity in Mexico intensifying

Civil engineering, specialized engineering, and civil engineering

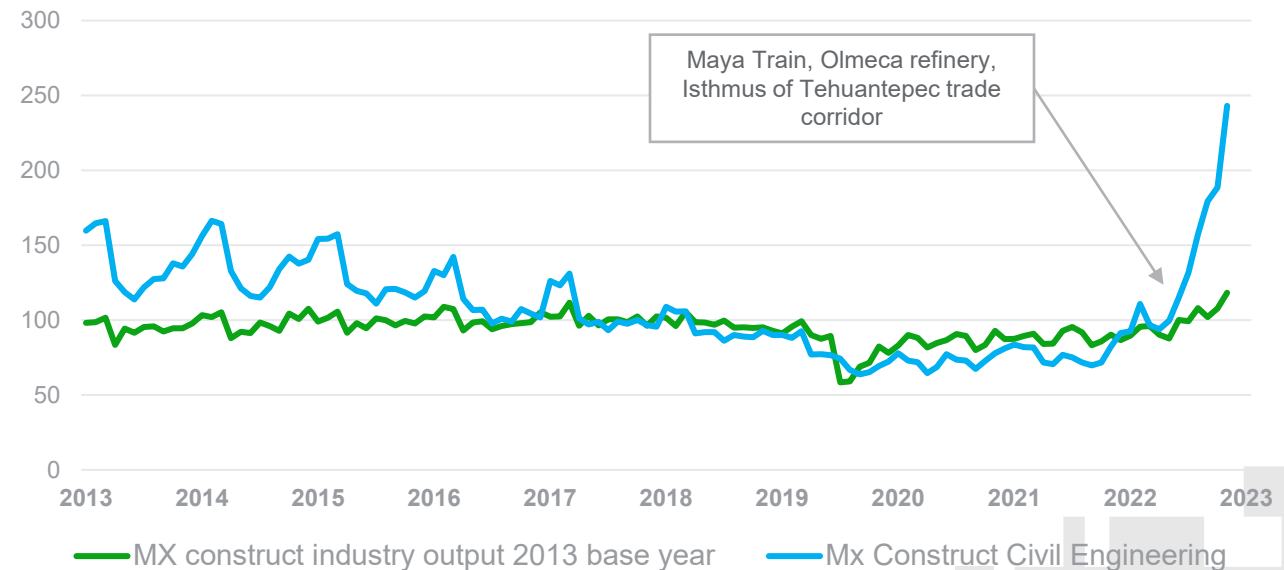
## Mexico construction output YoY% change

Output is up 30.8% from prior year



Source: Bloomberg, INEGI, RSM US LLP

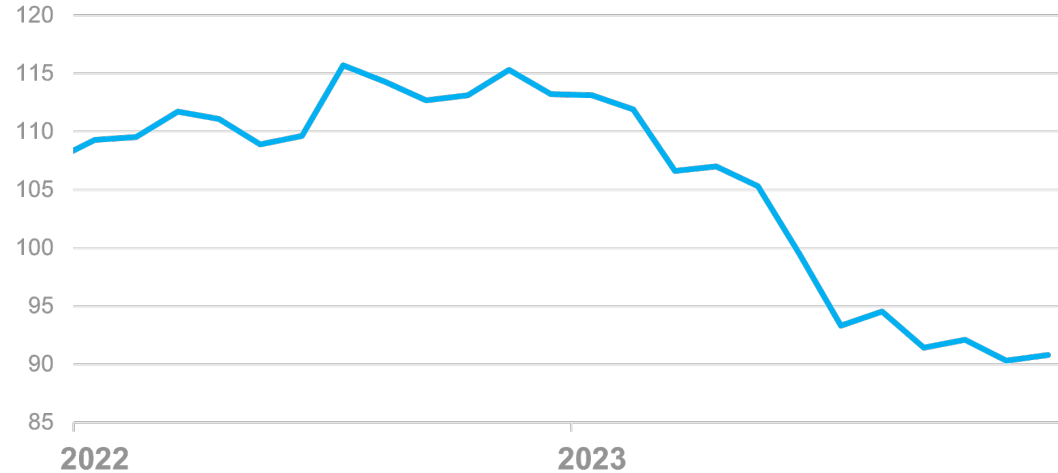
## Mexico construction output & civil engineering output index



Source: Bloomberg, Banco de Mexico, RSM US LLP

# China export prices at 14 year low; Prices paid at factory gate also slump

**China's export prices at 14 year low**  
Export price index; previous year =100



Source: Customs General Administration PRC, Bloomberg, RSM US

**China deflation 2023 - it may continue in 2024**  
*China Producer Price Inflation Tracker - Percent change*

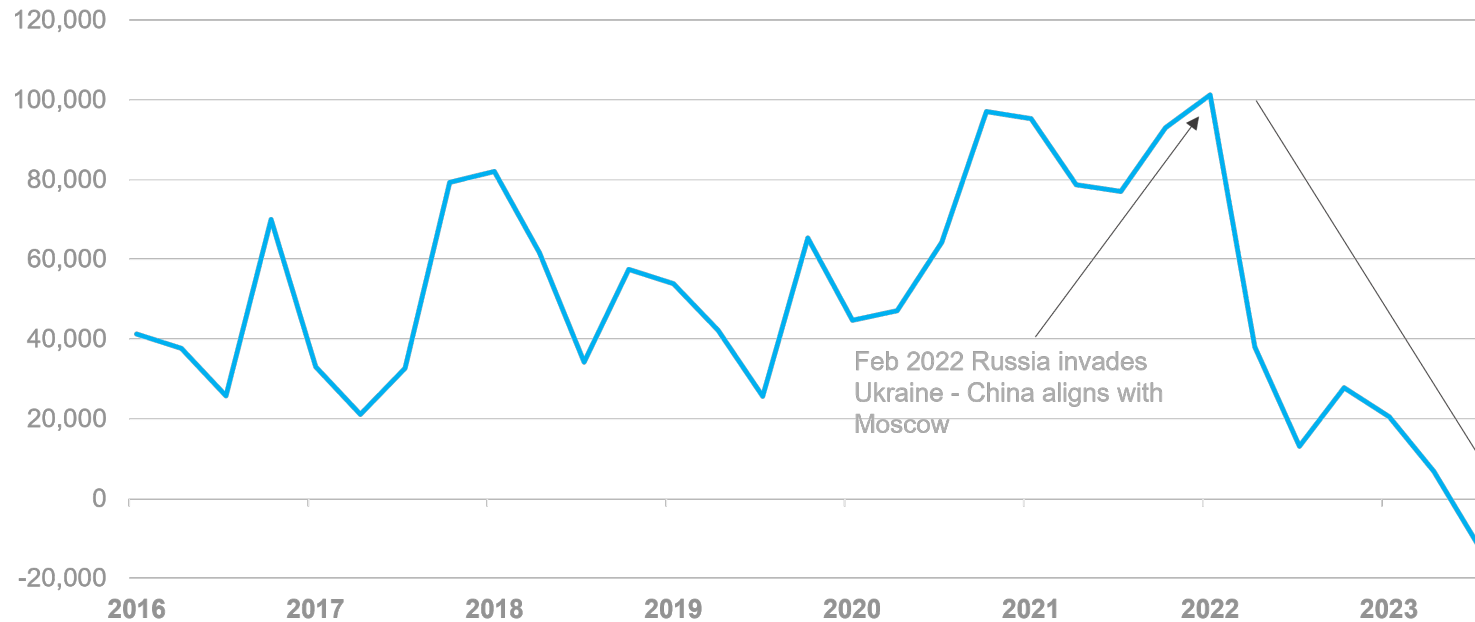


Source: Bloomberg Economics, RSM US LLP



# Capital and financial investment into China

**Investment into China marks a deficit for first time**  
 Direct investment liabilities in China USD Millions



Source: State Administration of Foreign Exchange of China, Bloomberg, RSM US LLP

How else can we  
think about risks

# Undiversified risk: The #2 reason for business decline in Fortune 500 study



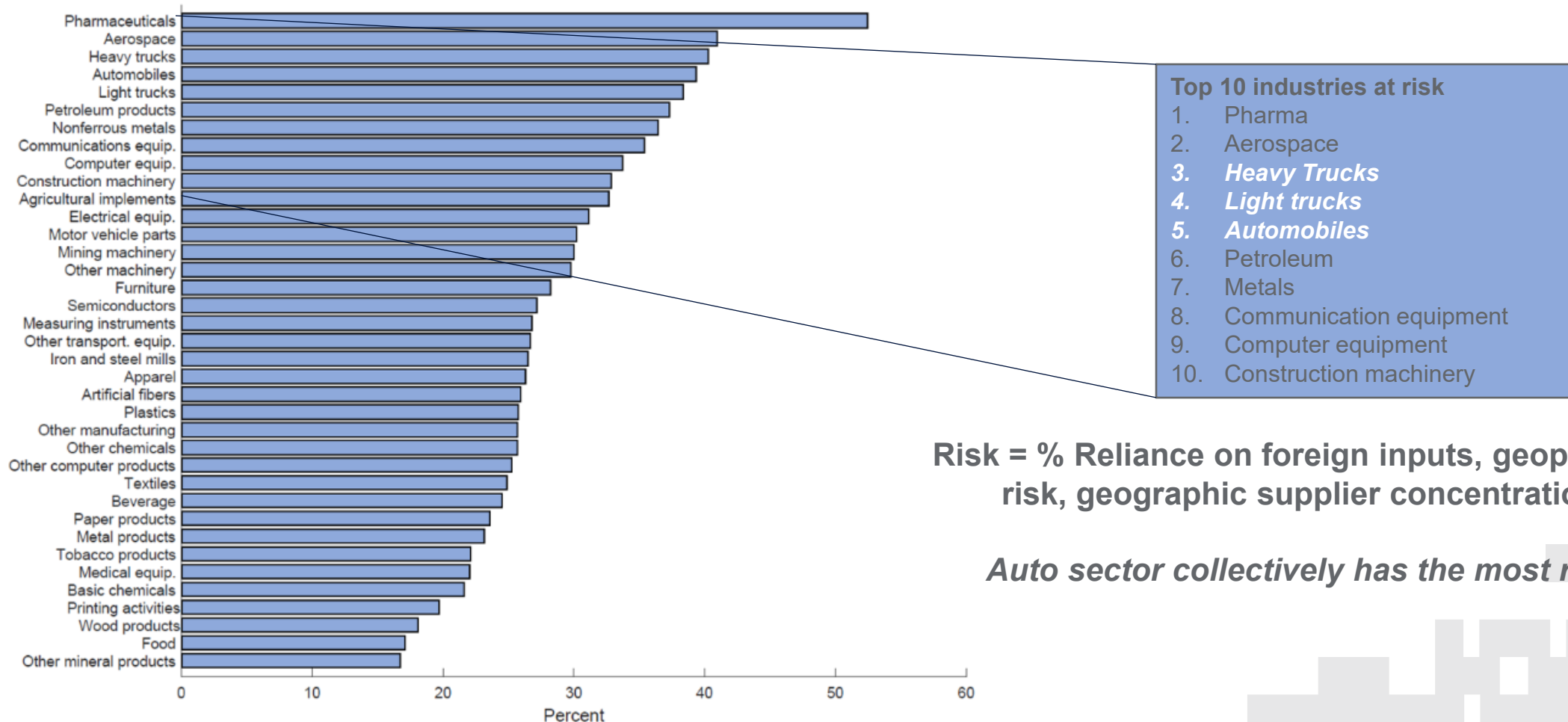
## Root Causes of Decline by Risk Type

Share Price Decline Drivers  
Market Capitalization in the Fortune 500



# U.S. industry supply chains at most risk – semi finished and raw materials

Import share of intermediate goods – 2019 baseline used to exclude market distortions



**Risk = % Reliance on foreign inputs, geopolitical risk, geographic supplier concentration**

***Auto sector collectively has the most risk***

# How can we think about risks in our value chain?

Risks to incorporate into your risk framework:



## Reliance on foreign inputs

What is the % reliance on foreign inputs?

Which inputs could have a disproportionate impact?

Which are hard to substitute items?



## Geopolitical risk

What % of inputs come from geopolitical rivals vs. neutral locations or allies?



## Geographic supplier concentration

What % of suppliers have high vs. low geographic concentration?

Can a local shock have a disproportionate impact?



## Your business risk index

What % of the business is potentially at risk?

What is the financial impact?

What is the likelihood?

What is our state of preparedness?







# Strategies to cope with it

# What are we seeing companies do?



# Use a framework to get there

*Create go/no go steps and hurdles at each stage*

	<p><b>Strategy, criteria, design principles</b>          Product strategy, end market analysis, frame up needs, opportunities, and feasibility</p>
	<p><b>Define scenarios and operating models</b>          Put them to paper, make them distinct, draw pictures, get broad input on each model, location, assumptions</p>
	<p><b>Investigate economics</b>          Financial and non-financial forecasts, base / best / worst case scenario of forecasts, capex, operating costs of all scenarios, tax, tariff, regulatory</p>
	<p><b>Assess capabilities</b>          State of readiness, training and onboarding, management skill, capacity, leadership, information systems, scalability of processes, financing, can we win?</p>
	<p><b>Quantify risks</b>          Sensitivities to our assumptions, suppliers, labor availability, readiness, delays, infrastructure, competitors, regulatory, weather or seasonality</p>
	<p><b>Develop a roadmap</b>          Tasks, timelines, sequence, costs, owners, change management, project management; first 30-60-90 days</p>



## CLIENT SPOTLIGHT

# Enabling Growth Through Manufacturing Investments

### Industry

- \$4B Publicly-Traded
- Product Portfolio: Medical device manufacturer

### Outcomes

- Focused, data-driven decisions regarding location selection and investment

### Related issues and trends

- Projecting the USA market to account for 60% of sales over the next 15 years, thus exploring how best to capitalize on this opportunity

### Key themes

 Trade, Tax, & Tariffs	 Land Avail. & Expansion	 Infrastructure Quality
 Thermoplastic Supplier	 Labor Availability	 Carbon Footprint

**\$396M**

Quantified positive financial impact over 15 Years

**30% Reduced financial risk**

Path to reduce undiversified risk

**Savings**

Accelerated management alignment, decision making, reduced *opportunity costs*

## Challenge – How can we reduce risk and gain efficiencies in N. America

Growth potential for the product in the U.S. remained strong

Risked of missed sales, high transport costs

Leadership needed a structured data-driven analysis that weighed location options in diversifying away from Australian and Southeast Asian manufacturing sites.

Need for change was clear but direction remained clouded, thus enabling our partnership.

## Services & support provided

- **Laid the foundation for growth** via aligning on the most advantageous location options based on operating model attractiveness
- **Defensible quantitative financial modeling** for growth targets, recurring, and one-time operating costs
- **Minimized geopolitical and supply chain risks** to more effectively and efficiently service the USA market

## Results

- **Validated expanding manufacturing operations within the Americas** (US “Super Site” in the Midwest, USA with a Mexican location for higher labor content)

Thank you



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