



TriVista

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Tariffs & Supply Chain  
Headwinds Impacting  
Private Equity Backed  
Companies

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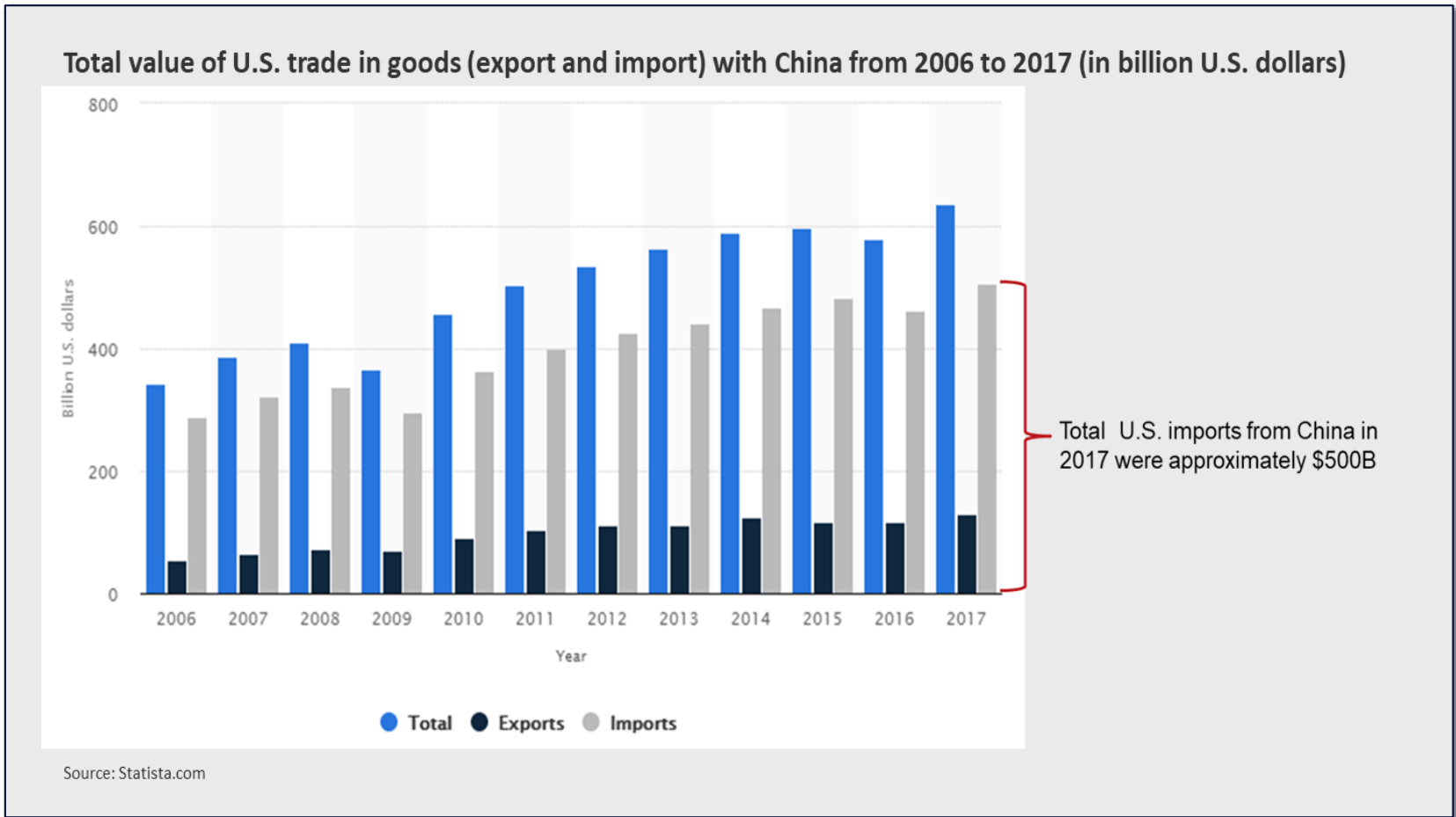
- The leading operations advisor to PE
- We work predominantly with private equity-backed companies, increasing Enterprise Value and preserving capital through operations improvement
- Founded 2006
- 1500+ mid market PE engagements
- 150+ PE clients
- Wrote the playbook on “Quality of Operations®”



- Tariffs – magnitude and scope
- Volatility in other sourcing costs
- Financial and operational impact
- Strategies to address these headwinds
- Key takeaways for investors and executives



# TARIFFS – Scope To Date



By almost any measure, the *magnitude* and *impact* of the recently imposed tariffs are substantial

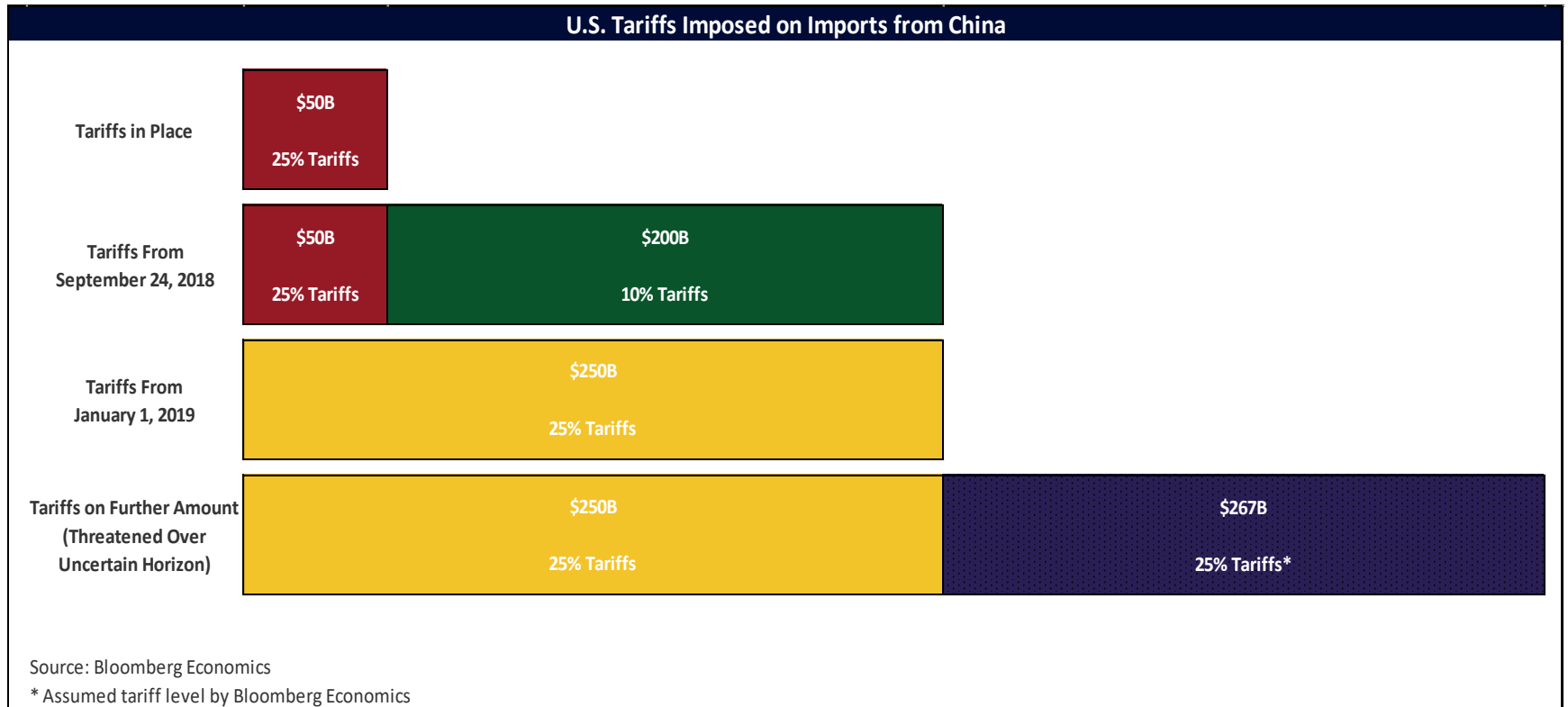




# Harmonized Tariff Schedule (2018 HTSA Revision 14)

Affected imports and tariff rates are not a mystery

# TARIFFS – Looking Ahead



The unpredictable timing and scope of the next wave of tariffs (or rollback of the current tariffs) is what makes the current environment particularly dangerous



# TARIFFS – Looking Ahead (continued)

Import – Export (U.S. Trade Imbalance, 2017)

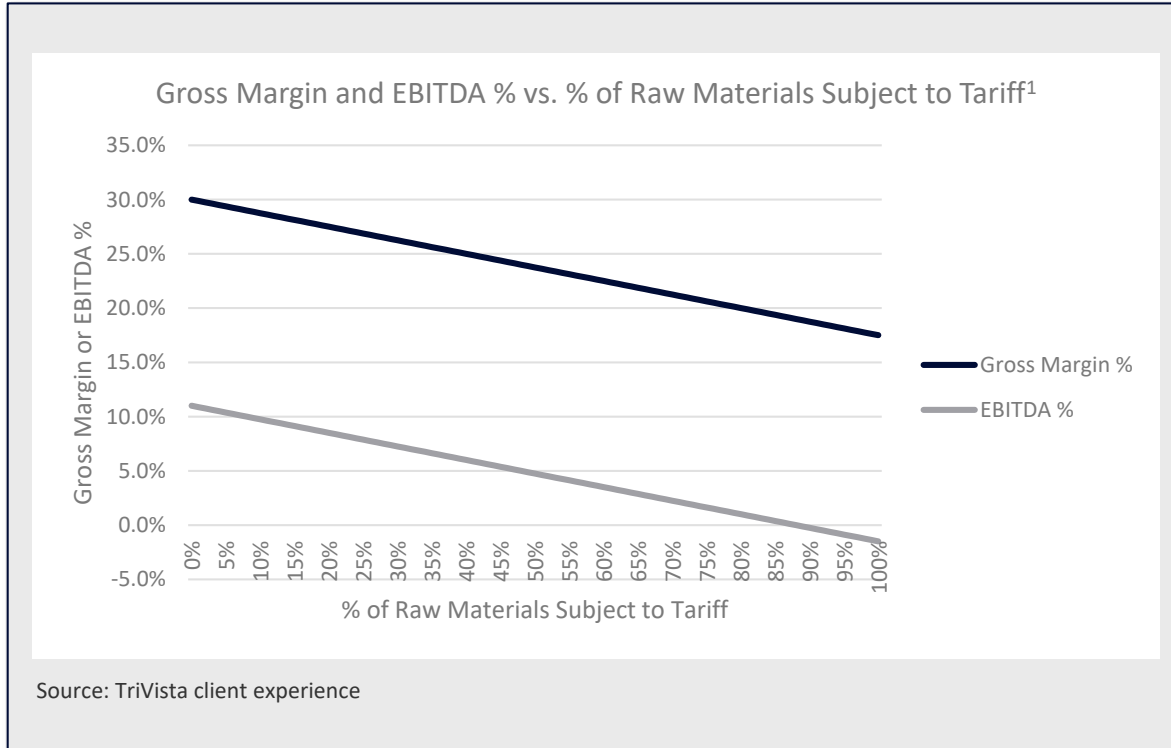
Country	Total Trade	Imports	Exports	Surplus/(Deficit)
China	\$635 B	\$505 B	\$130 B	(\$376 B)
Mexico	\$557 B	\$314 B	\$243 B	(\$71 B)
E.U.	\$718 B	\$435 B	\$283 B	(\$151 B)
Africa	\$55 B	\$33 B	\$22 B	(\$11 B)
India	\$74 B	\$49 B	\$26 B	(\$23 B)
Philippines	\$20.2 B	\$11.6 B	\$8.6 B	(\$3 B)
Vietnam	\$54 B	\$46 B	\$8 B	(\$38 B)

U.S. Worldwide Total Trade  
2017: \$3.9 Trillion

- Imports: \$2.3 Trillion
- Exports: \$1.5 Trillion
- Deficit: \$796 Billion



# TARIFFS – Financial Impact



- The tariff impact can be game-changing in certain industries
- For an example mfg client, a new tariff impacting 30% of RM caused
  - GM decline from 30% to 26%
  - EBITDA decline from 11% to 7.3%
  - EV reduced by 38%

Note: 1) Representative manufacturing client with 30% gross margin, 11% EBITDA margin pre tariff; 25% tariff rate  
2) \$100M revenue; 11% WACC; 25% tax rate; assume EV change = PV of change in free cash flow from operations

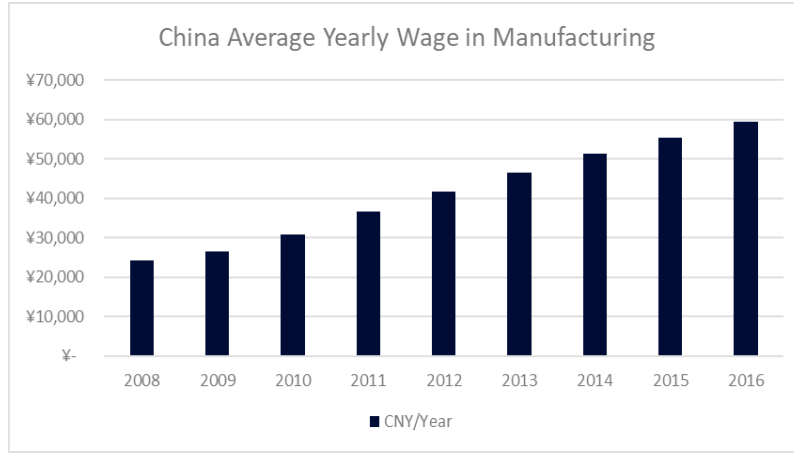
**The ability to move out of tactical reaction mode, and develop strategies to take advantage of the market discontinuities created by new tariffs, will separate winners from losers in many industries**



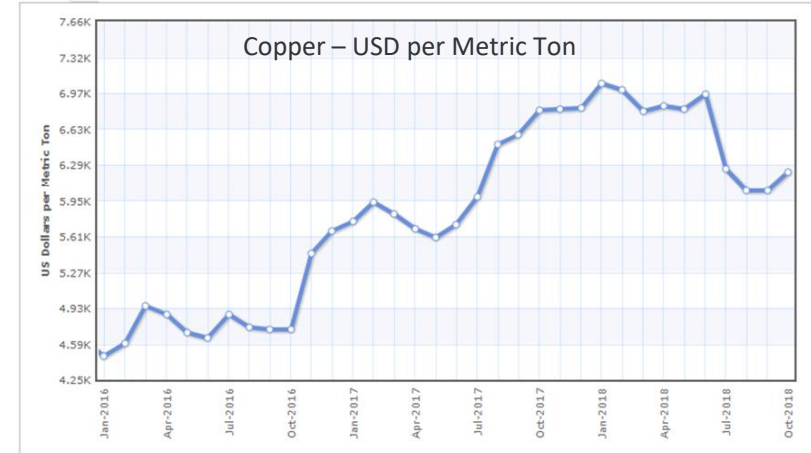


# OTHER LEADING COST FACTORS – Even Greater Impact, Courtesy Of The Same Global Dynamics That Brought You The US Tariffs

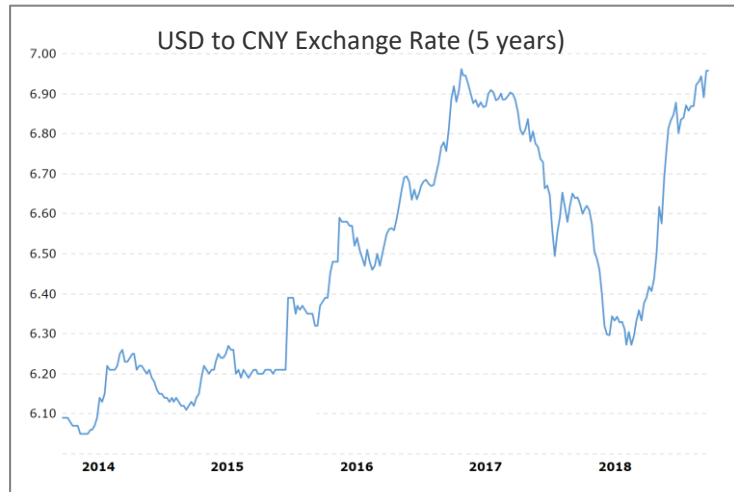
## LABOR



## RAW MATERIALS



## EXCHANGE RATES



## OTHER FACTOR COSTS

- Government / Regulatory Pressures
- Environmental concerns
- Consumer preference shifts
- Rapid change in distribution models (omnichannel and overnight / 2 day “Prime effect”)



# RE-THINKING THE ALL-IN CHINA STRATEGY – A TCO Perspective

- The no-brainer decision to double down on an all-China sourcing strategy that made perfect sense 5 years ago may now be a losing approach
- With Chinese manufacturing labor costs now on par with Mexico, many of the drawback of a Chinese sourcing strategy that could be overlooked in the past are now very important
- Taking a TCO perspective on the benefits and risks associated with your sourcing strategy is critical

<b>Total Cost of Ownership</b>			
<b>Quantifiable Category</b>	<b>China</b>	<b>Mexico</b>	<b>% Delta</b>
<b>Labor Cost</b>	\$ 1.55	\$ 0.79	-49%
<b>Freight Cost</b>	\$ 1.50	\$ 2.50	67%
<b>Inventory Holding Cost (In-Transit)</b>	\$ 0.12	\$ 0.01	-88%
<b>Inventory Holding Cost (Warehouse - Cycle Stock)</b>	\$ 0.30	\$ 0.04	-88%
<b>Customs and Duties</b>	\$ 1.29	\$ -	N/A
<b>Material Cost</b>	\$ 2.22	\$ 2.33	5%
<b>Total Cost of Ownership</b>	\$ <b>6.98</b>	\$ <b>5.66</b>	<b>-19%</b>



# WHAT STEPS CAN YOU TAKE TODAY TO REACT TO THE NEW REALITY OF TARIFFS AND OTHER SUPPLY MARKET DISCONTINUITIES?

- 1) Assess the impact today
- 2) Act now – reaction speed is important
- 3) Think ahead

**Think defensively to minimize financial and operational impact**  
**Think offensively – market disruptions create opportunity for nimble organizations**



- Map products to HTS
- Use HTS schedule to look up
- Extend out the math
- Use analysis to drive decision making

# REACTION SPEED – A Key Success Ingredient

% of Global Manufacturing Output<sup>1</sup>



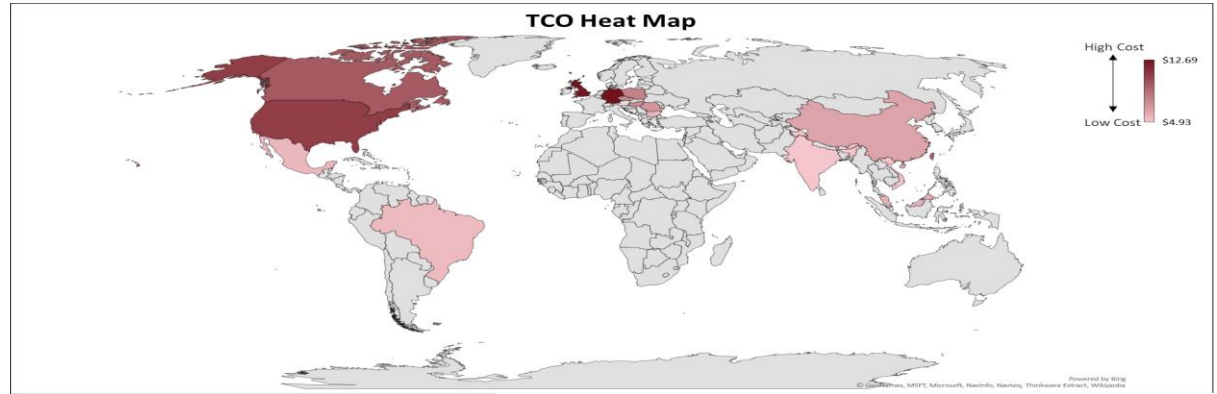
- China manufacturing output is 500% greater than adjacent low-cost manufacturing countries combined
- Small % flight from China quickly swamps adjacent country capacity.<sup>2</sup>
- 1% movement of China output consumes 20% of excess capacity in all 5 adjacent countries combined

Source: 1) World Bank; UN Conference on Trade and Development, 2017

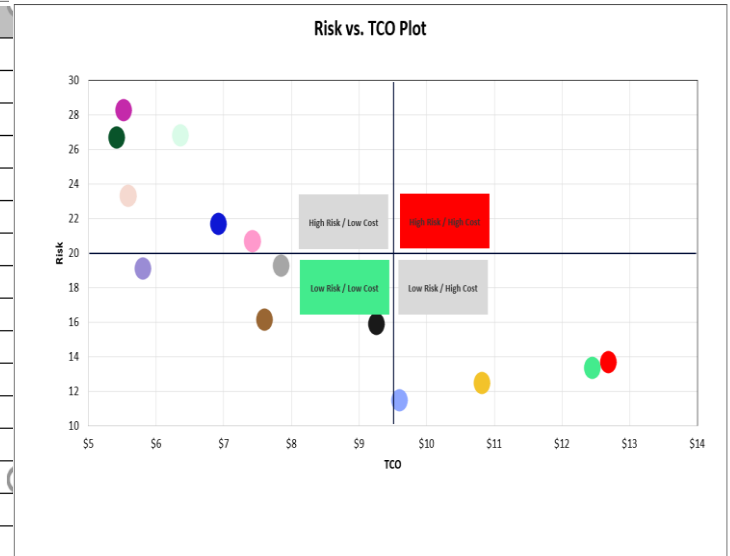
2) ~80% average manufacturing capacity utilization across adjacent low-cost manufacturing countries; Tradingeconomics.com, mier.org | Malaysia data

# THINK AHEAD – Gain Visibility And Track The Impact

- The ability to react starts with visibility
- Monitor changes in global supply factor costs and assess the impact on your supply chain
- Rethink your supply strategy – the right strategy can serve as a strategic weapon, turning discontinuity and volatility into an advantage



Country	TCO	Risk
Germany	\$13	14
USA	\$11	12
Canada	\$10	11
United Kingdom	\$12	13
Poland	\$8	19
Czech Republic	\$8	16
Tiawan	\$9	16
Hungary	\$7	21
Brazil	\$5	27
Mexico	\$6	28
China	\$6	27
Malaysia	\$6	19
Romania	\$7	22
India	\$5	29
Bulgaria	\$6	23
Vietnam	\$5	28



# THINK AHEAD – Develop A Strategy To Win In Your Market

**RE-THINK  
STRATEGY**

*Options vary by industry/end market*

Hold the  
Course

Maintain Margin Through Supply  
Chain Responsiveness

Growth Through Pricing and  
Supply Chain Flexibility



**DEVELOP  
TACTICS**

- HTS Code Classification Review
- Postponement and reconfiguration of global product flows
- Supply chain diversification through sourcing from other low-cost Asian countries
- Onshore to North America
- Tighter cost-price linkage and quicker price adjustments
- Hold for now



# KEY CONSIDERATIONS FOR INVESTORS AND EXECUTIVES

## INVESTORS

- Has the impact of recently enacted tariffs filtered through to the financials provided by the seller?
- Has the magnitude and probability of additional tariffs on Chinese imports been included in the valuation?
- Can the management team articulate a solid supply chain strategy that includes mitigation of tariff and other factor cost volatility?
- What is the financial impact of alternative sourcing strategies (GM, EBITDA, EV impact)?
- What other competitive advantage can be gained through alternative sourcing strategies (e.g., shorter lead time, reduced inventory investment and capital cost, improved OTD, reduced cost of quality, reduced cost of expediting and air freight)?
- How tightly is the company pricing strategy tied to supply cost increase? How frequently is supply market insight passed to the pricing team?
- Has the management team already acted to mitigate current tariffs or are they behind the curve?

## EXECUTIVES

- Do we have clarity on the mapping from purchased parts to HTS codes?
- Do we understand the financial impact of current Tariffs at the SKU level?
- Can we quantify the impact of alternative sourcing strategies/countries that would change our competitiveness in the market?
- Have we developed an effective sourcing strategy; and
- are we executing against it in advance of the next wave of tariffs, price increase from our supply base, or offensive move from a competitor?
- Have we started a sourcing exercise to identify alternative suppliers in advance of the next wave of tariffs?
- Have we increased price as frequently as possible in the current inflationary supply market?

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