



TriVista

Tariffs & Supply Chain
Headwinds Impacting
Private Equity Backed
Companies

November 13th, 2018

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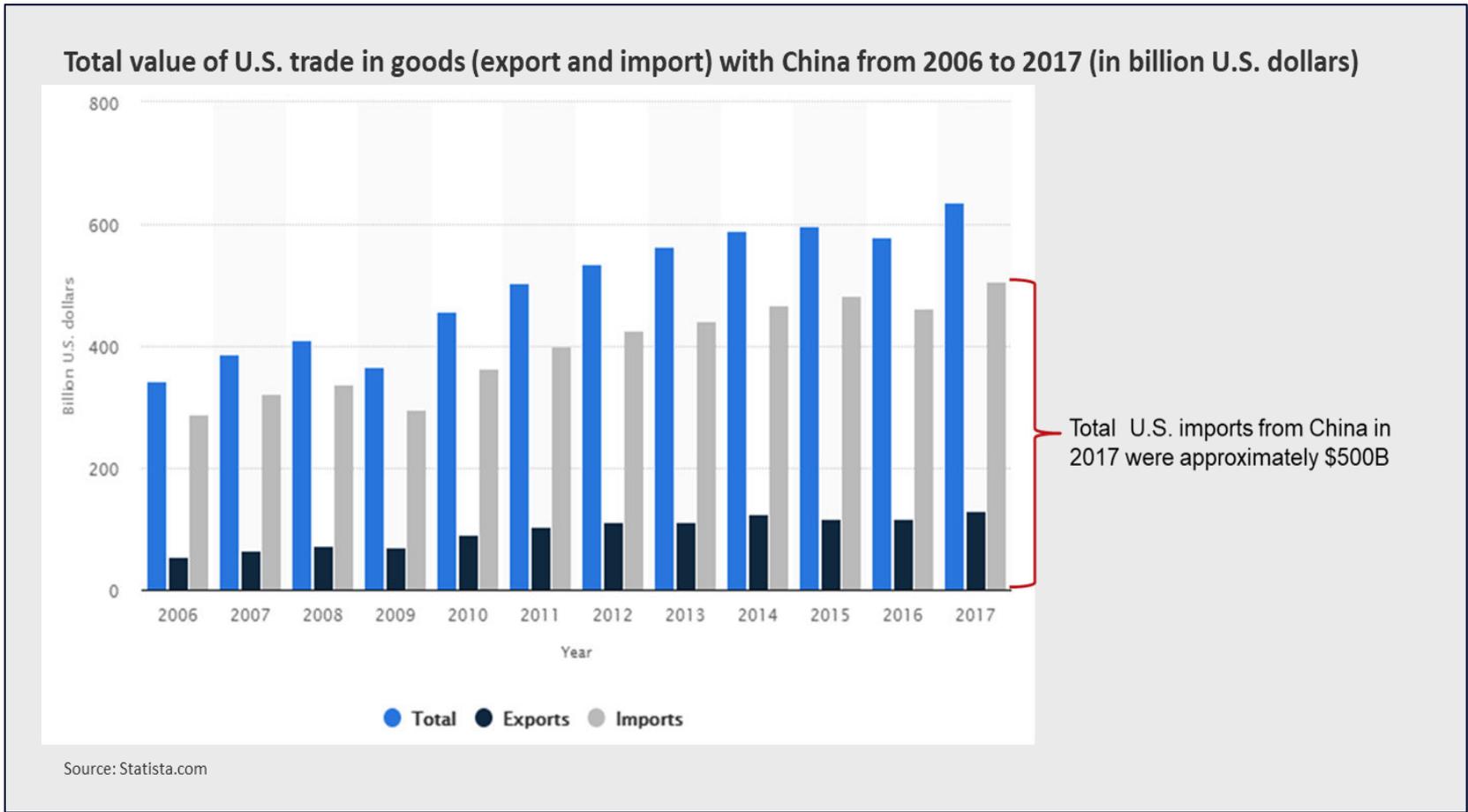
- The leading operations advisor to PE
- We work predominantly with private equity-backed companies, increasing Enterprise Value and preserving capital through operations improvement
- Founded 2006
- 1500+ mid market PE engagements
- 150+ PE clients
- Wrote the playbook on “Quality of Operations®”



- 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

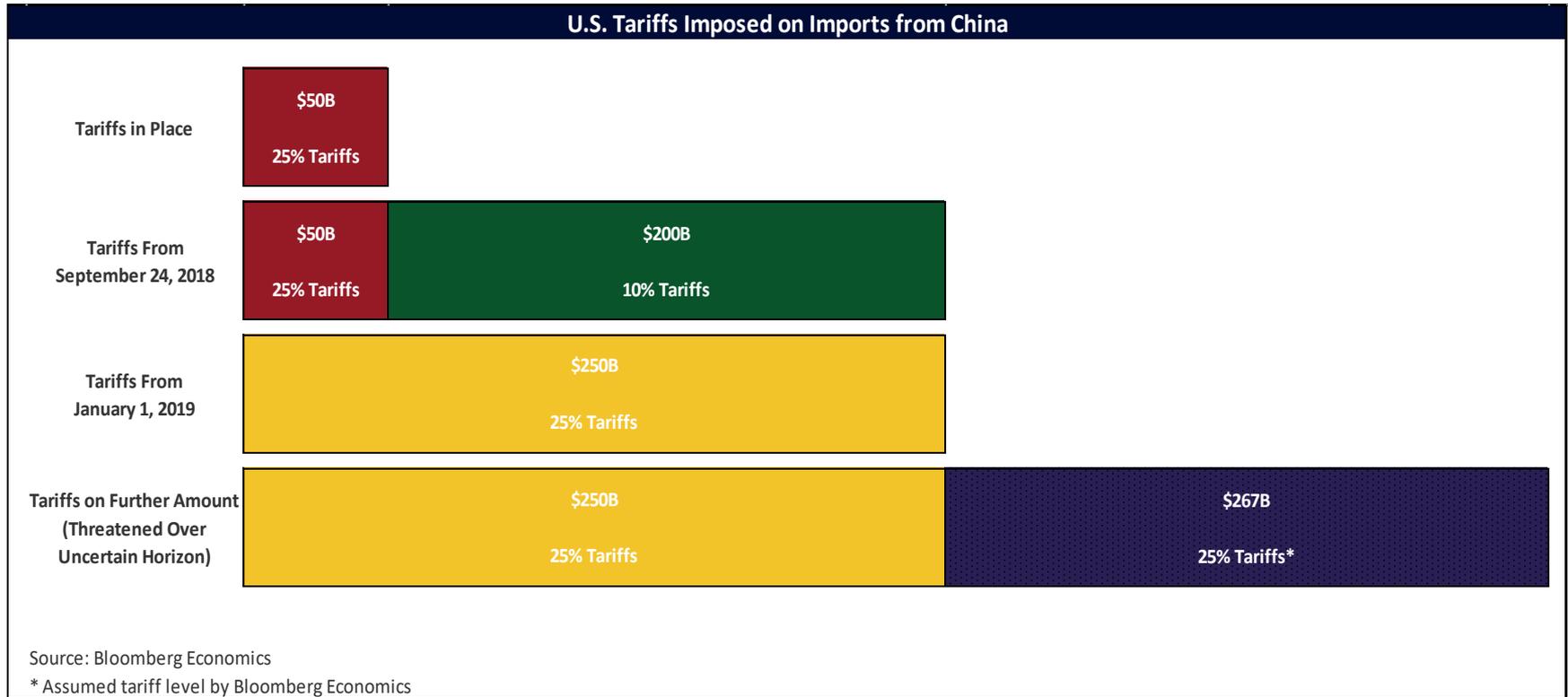




Harmonized Tariff Schedule (2018 HTSA Revision 14)

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)

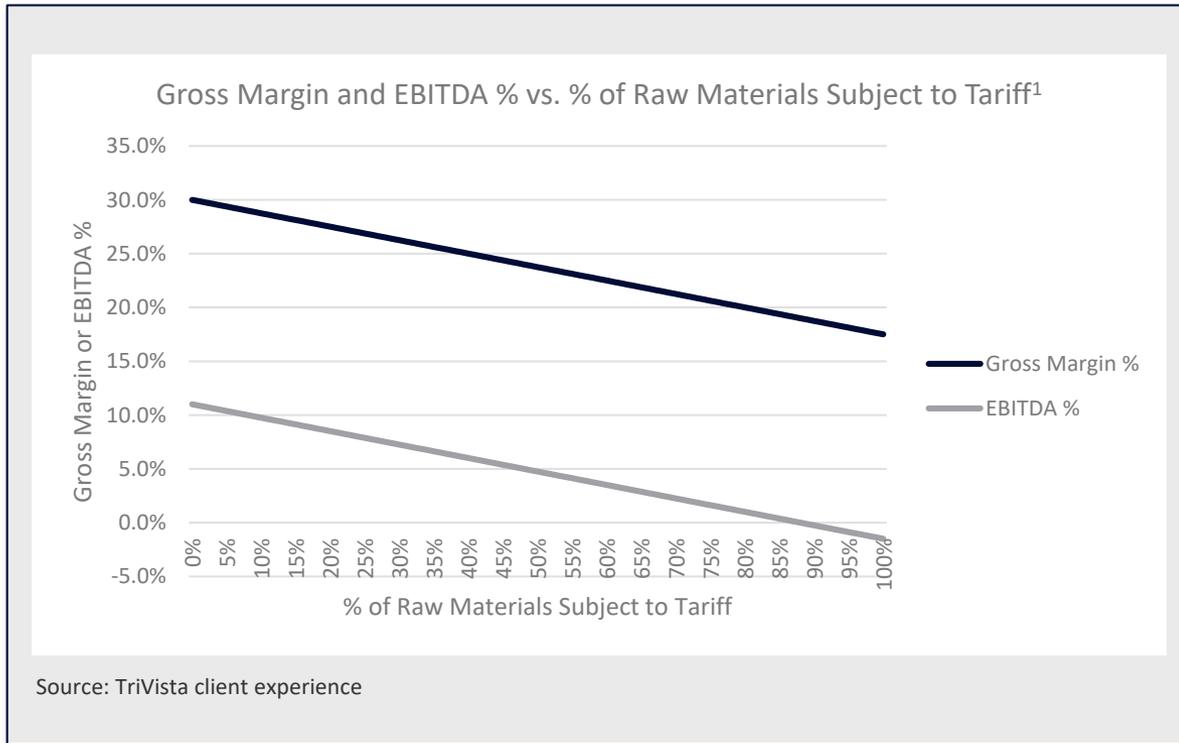
Country	Total Trade	Imports	Exports	Surplus/(Deficit)
China	\$635 B	\$505 B	\$130 B	(\$376 B)
Mexico	\$557 B	\$314 B	\$243 B	(\$71 B)
E.U.	\$718 B	\$435 B	\$283 B	(\$151 B)
Africa	\$55 B	\$33 B	\$22 B	(\$11 B)
India	\$74 B	\$49 B	\$26 B	(\$23 B)
Philippines	\$20.2 B	\$11.6 B	\$8.6 B	(\$3 B)
Vietnam	\$54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

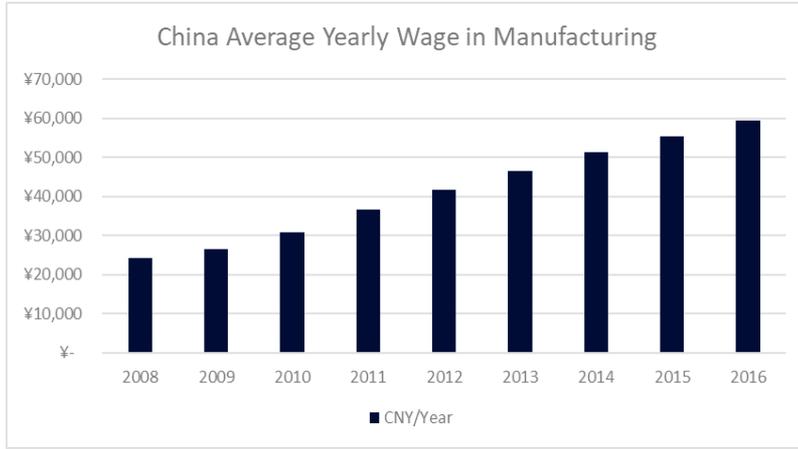
Note: 1) Representative manufacturing client with 30% gross margin, 11% EBITDA margin pre tariff; 25% tariff rate
2) \$100M revenue; 11% WACC; 25% tax rate; assume EV change = PV of change in free cash flow from operations

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

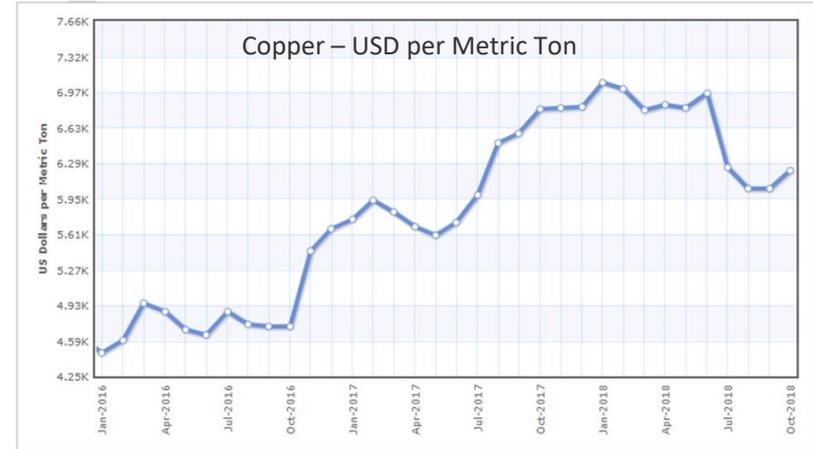


OTHER LEADING COST FACTORS – Even Greater Impact, Courtesy Of The Same Global Dynamics That Brought You The US Tariffs

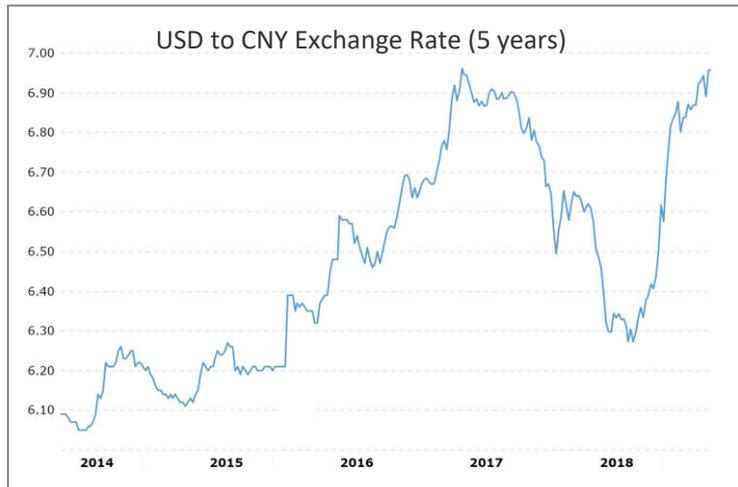
LABOR



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

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



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 Output¹



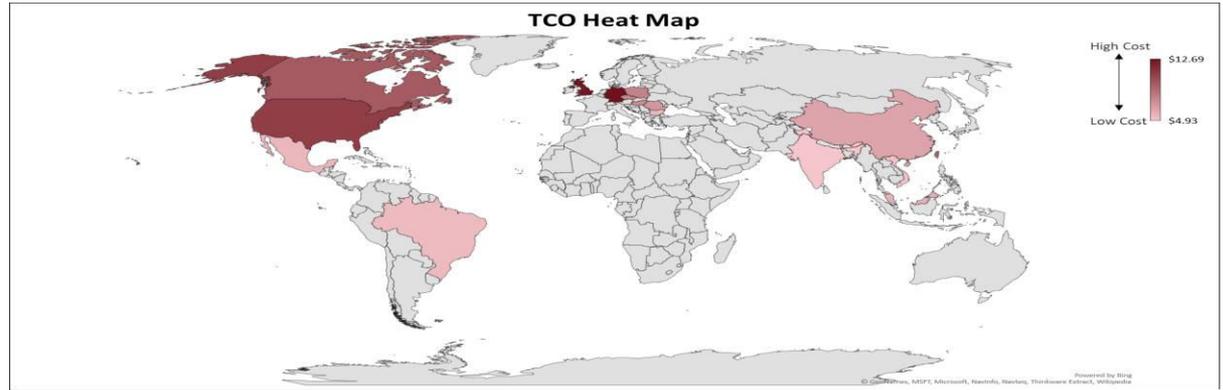
- China manufacturing output is 500% greater than adjacent low-cost manufacturing countries combined
- Small % flight from China quickly swamps adjacent country capacity.²
- 1% movement of China output consumes 20% of excess capacity in all 5 adjacent countries combined

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

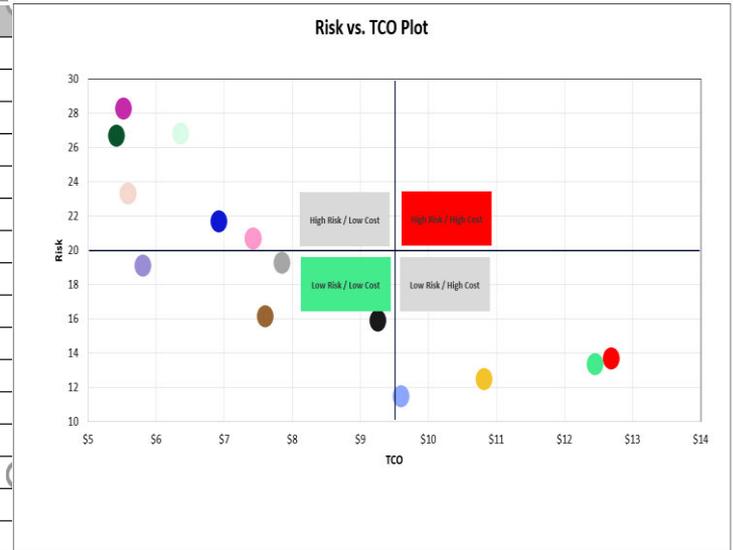
2) ~80% average manufacturing capacity utilization across adjacent low-cost manufacturing countries; Tradingeconomics.com, mier.org | Malaysia data

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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