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Supply Chain Breakdown

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BAY AREA

Why is stuff costing more? The case of one granola maker shows a supply chain in crisis



Carolyn Said

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Change in pricing since pre-pandemic

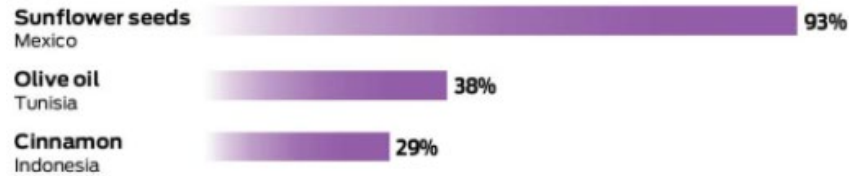
Nana Joes Granola is seeing prices rise for most of its raw materials, primarily due to climate change, although pandemic shortages and freight costs also played a role.

PRIMARY REASONS FOR PRICE CHANGE

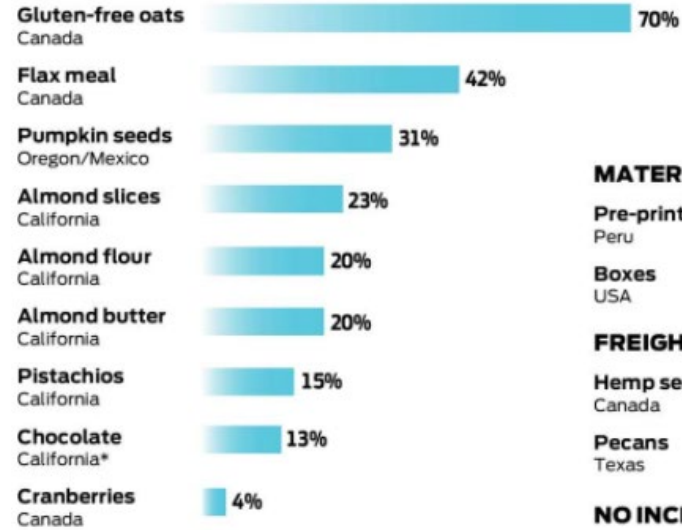
MONSOON/TYPHOON



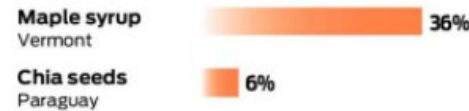
PANDEMIC



CLIMATE CHANGE



DEMAND



MATERIAL SHORTAGE



FREIGHT INCREASE



NO INCREASES



*Beans come from Caribbean and South America to make chocolate in California.

Source: Nana Joes Granola

John Blanchard / The Chronicle



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A CONFLUENCE OF FACTORS HAS CONTRIBUTED TO AUTOMOTIVE SUPPLIER CHALLENGES, DRIVING LOWERED FORECASTS AND CONTINUED UNCERTAINTY



Continued COVID-19 flare-ups and renewed restrictions



Semi-conductor supply chain issues remain and will continue longer than expected



Industry transformation driving continued investment and planning (new technology / other disruptors)



Labor scarcity and increase in wages / incentives to attract and retain talent



Material cost increases and decreased availability



Shipping and logistics challenges and cost increases



Inflationary pressures on other input and services costs



Customer releases remain volatile and inaccurate due to fluid supply chain issues



Consistent downward revisions to volume forecasts throughout the year



Unplanned OEM plant downtime continues causing variability in production schedules



New launch and tooling spend expectations from OEMs remain despite launch timing uncertainty



Commercial pricing pressure and LTA expectations persist despite supplier challenges

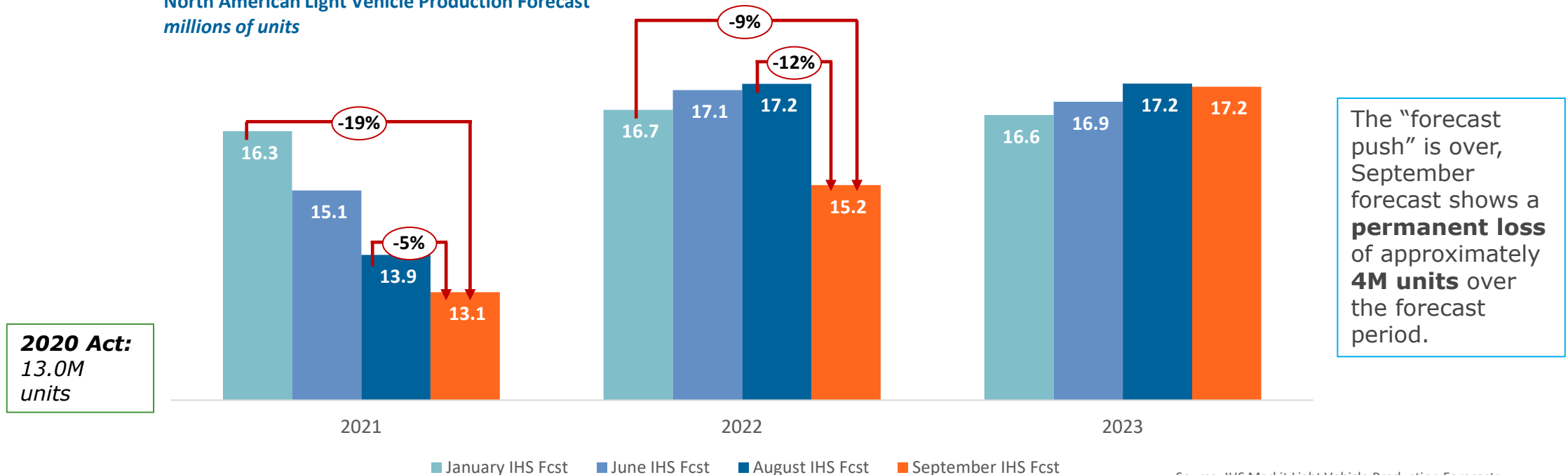


Supplier continuous improvement actions hampered by existing challenges and inefficiencies

THE NORTH AMERICA OUTLOOK FOR LIGHT VEHICLE PRODUCTION HAS CONTINUED TO DECLINE DUE TO THE ONGOING SEMICONDUCTOR SHORTAGE, ALONG WITH RENEWED COVID-19 RESTRICTIONS

- ▶ 2021 North America production volume expectations have decreased by 19% or 3.2M units since the January forecast, with the September projection representing a 5% or 733k unit decline from the previous month's release.
- ▶ The production outlook for 2022 was also significantly reduced by 12% or 2M units from the previous (Aug) forecast.
- ▶ While a return to sustained, normalized production activity has effectively been deferred to 2023, **approximately 4M units have been permanently removed from the system over the 3-year period 2021-2023.**

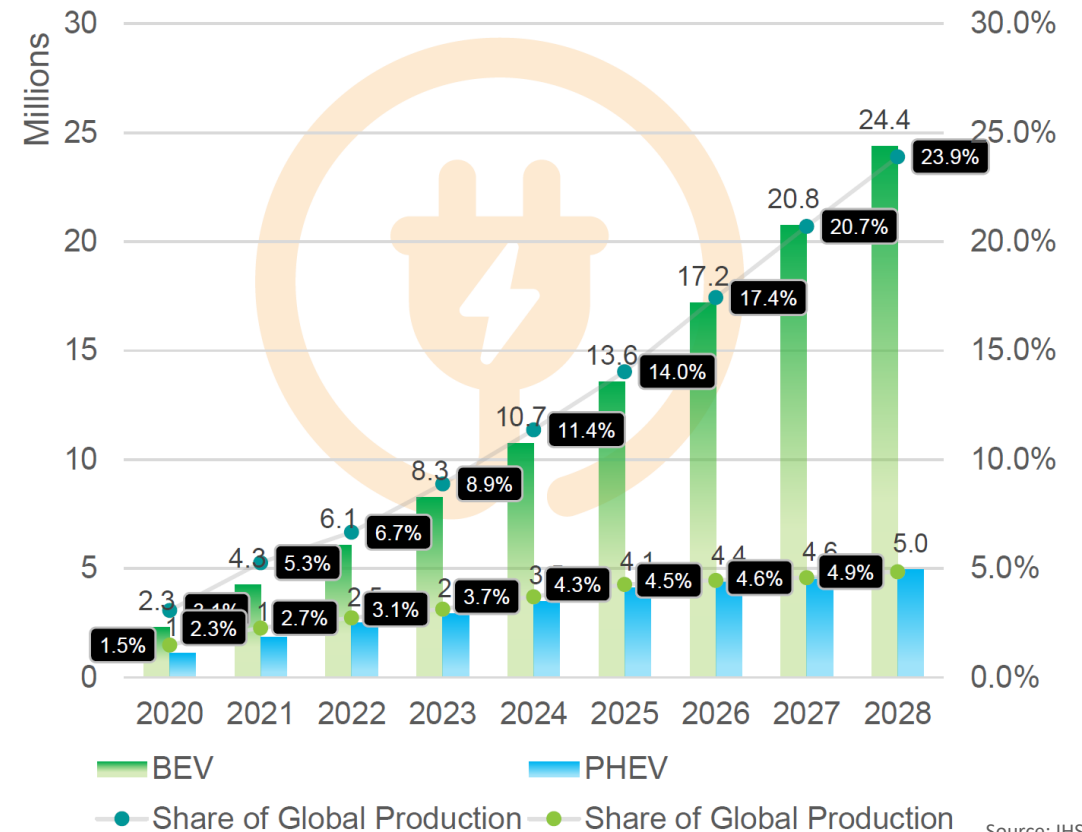
North American Light Vehicle Production Forecast
millions of units



AMID CURRENT INDUSTRY CHALLENGES, INCREASED PRESSURE TO INVEST IN NEW TECHNOLOGIES CONTINUES

- ▶ Migration to BEV and PHEV continues: China and Europe currently lead in BEV and PHEV production; BEV share increased on stimulus effects, product availability, and preference.
- ▶ Every international automaker is introducing battery cars, and plug-in hybrid options are increasingly part of model lines:
 - ▶ **Ford:** F-150 Lightning, Maverick hybrid truck
 - ▶ **General Motors:** Lyriq crossover SUV, electric Hummer, Bolt EV, electric Silverado
 - ▶ **Stellantis:** Electric Ram 1500, Jeep EV, Wrangler and Grand Cherokee PHEV.
- ▶ As of early October, Tesla's market cap is \$786B, well ahead of Ford (\$60B), GM (\$84B), and Stellantis (\$60B).

Global BEV and PHEV Production



Source: IHS Markit



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HOW CAN SUPPLIERS COPE AND WEATHER THE STORM? (1/2)



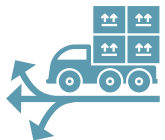
Labor

- ▶ Invest in robots
- ▶ College campus recruiting for part time work
- ▶ As an alternative to wage increases, offer profit sharing/equity like incentives for direct labor
- ▶ Offer attendance-based incentives including gifts (ex. raffle off TVs/vehicles/etc.)



Material

- ▶ Properly hedged? Get on an OEM indexing program, if not already.
- ▶ Can you decrease retro adjustment period with OEM customers?
- ▶ Secure supply early with vendors and lock in payment terms.
- ▶ Leverage associations (PMA) to pool buying power of smaller companies and realize economies of scale



Logistics

- ▶ Buying dedicated, guaranteed lanes/routes in advance to be preferred customer by trucking companies
- ▶ Ensuring full containers, regardless of whether all material is needed (opposite of lean)



HOW CAN SUPPLIERS COPE AND WEATHER THE STORM? (2/2)



Working Capital Mgmt.

- ▶ A/R factoring programs
- ▶ Accelerated receivable accommodations with customers
- ▶ May need to grow inventory to weather variability in raw material deliveries
- ▶ Build FG (if available space and people) to avoid start/stop issues
- ▶ Advance pay from OEMs on tooling, capex, etc. to decrease tied up working capital



Debt

- ▶ Explore refinancing options
- ▶ Secure new debt now, if able, to bolster liquidity position



Other Strategic Items

- ▶ Hoshin workshops to plan for “what if’s” and develop a “pivot playbook” to plan for certain events
- ▶ If close to distress, consider customer price increases or other accommodations early before situation turns into a crisis
- ▶ Investment in connected and visual factory initiatives to enhance margins and throughput
- ▶ Have all available Government or local programs been pursued?
- ▶ Build banks when able to be able to meet customers’ fluid requirements, run more efficiently, and avoid premium time



TRANSPORTATION INDUSTRY

- A cog in the supply chain machine
 - Not just trucking
- Driver shortage
 - 80,000 shortage (versus 61,500 pre-pandemic)
 - Not new
 - Increase in freight demand
 - Baby boomer retirements
 - Increase in wages and signing bonuses



TRANSPORTATION INDUSTRY CONTINUED

- Lack of new vehicles and maintenance parts
 - Limited new vehicle availability
 - Limited replacement parts
- Increase in fuel costs
 - Fuel surcharge passed on to customers
- Increase in freight demand
 - Rates to move goods is increasing
- What will 2022 look like?



Create a Rigorous Forecasting Process

- Precise Inventory Tracking
- Labor Constraints
- Demand Uncertainty
- Supply Systems
- Optimize Your Supply Network - Alternative Markets?
- Read Your Contracts; Know Your Covenants and Obligations



Liquidity Resources

- What Is Buying Power
- Inflation
- What Does the Supply Shortage Equate To? How Much Time/Money
- Additional Capital? Lenders? Leverage Assets?
- Insurance?
- Bankruptcy



OFFENSE

- Can Profit Be Made Because You have Excess Product or Liquidity?
- Will Stockpiling Goods Create Extra Revenue Over the Next 12 Months?
- Can You Target Competition? Takeovers?
- What Openings For Growth Do Industry Shortages Create and How Can You Use That to Your Advantage?

