Thriving in Turbulence: Mitigating the Impact of U.S. Trade Tariffs

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A. Current Environment

Tariffs have disrupted international trade and American markets – yet tariffs are merely the symptoms of a broader trend

Key highlights of current political-economic context

1. While the current US Administration has dramatically **accelerated the reshaping of globalization and US industry reshoring**, this trend **started beforehand** and is expected to **continue** given the global **resurgence of geopolitical and economic rivalry**

2. This **new economic order** is impacting global supply chains: **companies** must understand the **exposure of their operations** to supply and demand disruptions, considering the **alternatives** and their **respective impact on profitability**

3. Tariffs are only one tool of the administration to **reach policy objectives** (together with non-tariff barriers such as product standards, inspection mandates, added paperwork requirements, currency controls, etc). **Tariffs are just one piece of the larger chessboard at play**

4. In this context, it is expected that many large buyers/purchasers of manufactured goods **will rethink their sourcing plans** and seek co**mpetitive domestic suppliers** to replace foreign producers

5. Local/domestic manufacturers must reconsider too their own supply chain and c**osts profiles of their operations** and need to consider new ways of **to take advantage of this "new normal"**

Countries have been given a 90-day tariff pause | As of May 14, 2025

The April 2nd tariff announcements solidified the direction of economic and trade policy that has been 2+ months (and many years) in the making

Summary of April 2nd "Liberation Day" tariff announcements from the US

I Significantly increased tariffs across the board

Tariffs outpace expectations

- Universal 10% tariffs were announced, with countries receiving higher tariffs based on trade deficits

Key examples

- China received additional tariffs (effective now at 30%[1])
- UK preliminary trade deal set at 10% with other elements

II Emphasis on trade deficits

Tariff methodology

- Using trade deficits and imports, a "reciprocal"' tariff for each country/ economic bloc was calculated[2]

Key example

- Vietnam receives a 46% tariff (half of the 94% obtained by dividing the U.S. trade deficit with Vietnam by U.S. imports from Vietnam)

III Broad-based application

Limited applicability exceptions

- Some critical technologies have been given exemptions
- Some products that aren't produced in the U.S. and are imported have also received exemptions

Potential for adjustments

- The US administration announced a 90-day pause till July 8, 2025 (and August 12, 2025 for China)
- Current tariffs to be basis for further country-specific negotiations

1) As of change announced on May 12, 2025); 2) Further details on exact formula and other aspects can be found on further pages

The ongoing tariff situation continues to be volatile, reinforcing that it is just one lever being used to achieve geopolitical and economic policy objectives

Timeline of recent US tariff announcements and fallout

April 2nd: 'Liberation Day' tariffs, 10% universal tariffs and elevated tariffs for certain countries

April 5th: Elevated tariffs for certain countries are delayed for 90 days

April 9th: US increases tariffs on Chinese goods to 145%; China retaliates with tariffs of 125% on US goods

May 8th: US and UK sign a trade agreement, focusing on auto, pharma, and semiconductor sectors

May 12th: US lowers tariffs on Chinese goods to 30%; China responds by lifting certain non-tariff barriers

May 13th: US Trade Representative, Jamieson Greer, announces the 10% universal tariff will remain in place to support domestic manufacturing

EU tariffs on US grains to hit livestock sector, industry group says — Reuters

Canada imposes reciprocal tariffs on US steel, aluminum, other goods — S&P Global

EU to Hit Boeing, US Cars With Tariffs If Trade Talks Fail — Bloomberg

EU escalates Trump trade war by slapping import tariffs on Bourbon whiskey and Harley-Davidsons in $28 billion retaliation — FORTUNE

China Halts Critical Exports as Trade War Intensifies — The New York Times

Shein, Target, and 13 other major brands that say Trump's tariffs are pushing them to raise prices — BUSINESS INSIDER

Rivian slashes annual deliveries forecast as US tariffs seen hitting demand — WTAQ

Trump's tariffs could cost Apple $900 million this quarter, CEO Tim Cook says — CNN Business

LG considers raising prices, moving production due to tariffs — Reuters

Stellantis temporarily halts production at 2 plants in Canada, Mexico as auto tariffs take effect — AP

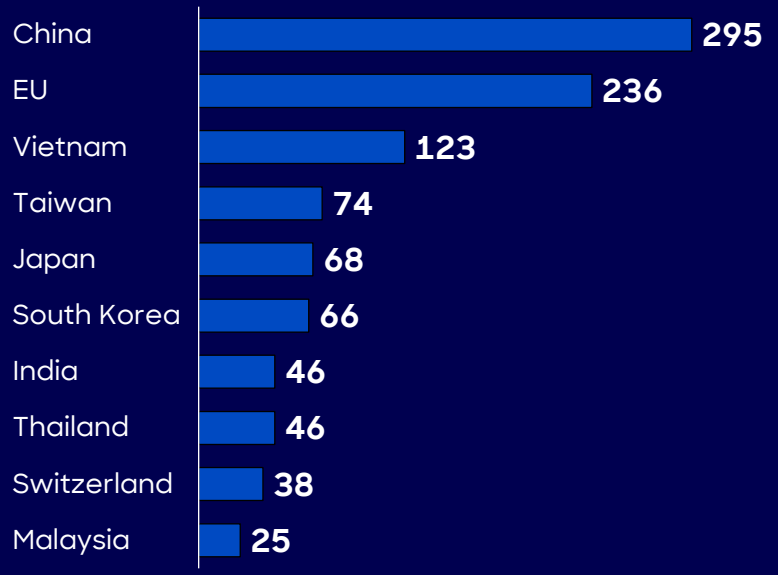
GM lowers 2025 guidance, citing up to $5 billion in tariff exposure — CNBC

As of April 17, 2025

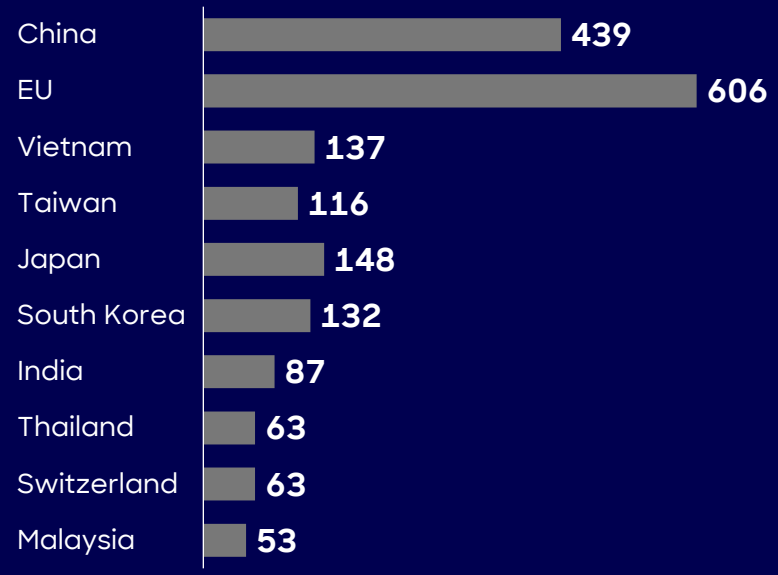
The 10 countries with which the US has the largest trade deficit on trade in goods were hit with reciprocal tariffs ranging from 20 to 46 percent

The US reciprocal tariff rates explained

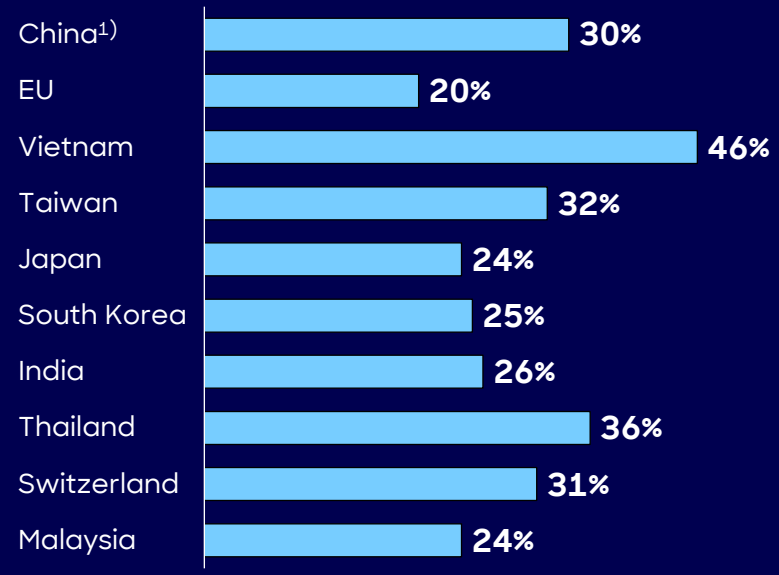
US trade deficits on trade in goods with top 10 trade deficit countries, 2024 [USD bn]



US trade imports (of goods) by top 10 trade deficit countries, 2024 [USD bn]



US reciprocal tariffs applied on top 10 trade deficit countries, April 2, 2025 [%]



$$US\ Discounted\ Reciprocal\ Tariff\ Rate^{2)} = \frac{1}{2} \times \frac{(US\ imports\ -\ US\ exports)}{US\ imports}$$

Example - European Union:

$$Reciprical\ tariff\ on\ EU: 20\% = \frac{1}{2} \times \frac{236\ Billion}{606\ Billion}$$

1) As of May 12, 2025; 2) US imports and exports of trade in goods

Source: White House, US Bureau of Economic Analysis, Center for Strategic and International Studies, Roland Berger

The new landscape of US trade policy poses critical risks as well as unique opportunities to IMEC members

Potential risks and opportunities for US companies

Risks

- **Tariffs** increasing supply chain costs, pressuring margins
- **Immigration policies causing labor shortages** limiting operational capacity and increasing wage costs
- **Long-term reduction of global competitiveness** due to industrial protectionist measures
- **Access to finance** limited for growth and investment in expanded capacity

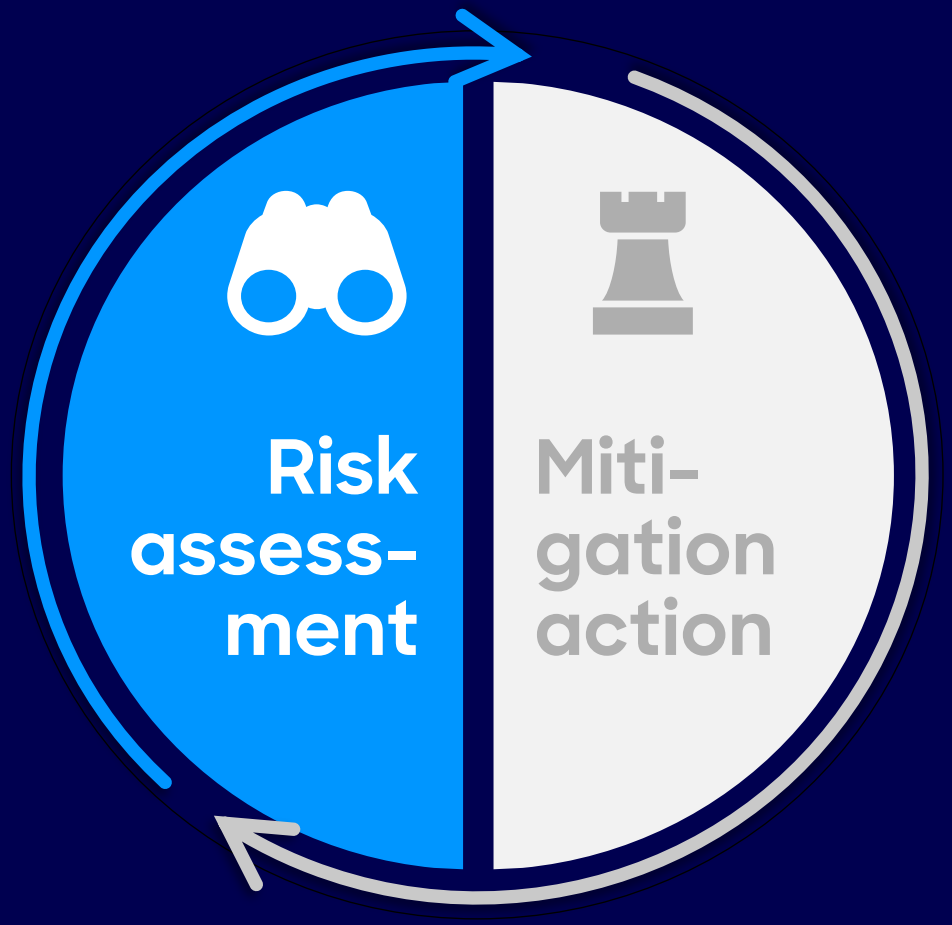
Opportunities

- **Import replacement** and growth in the value chain
- **Manufacturing optimization** to reduce waste and improve resilience
- **Expansion into adjacent categories / markets** to diversify revenue streams
- **Pricing increases / passthrough** to mitigate margin pressure supported by strong brand equity

B. Risk (Cost increases)

As a critical first step, businesses must assess their overall risk and magnitude of impact to their specific areas of operation

Risk assessment: Key considerations



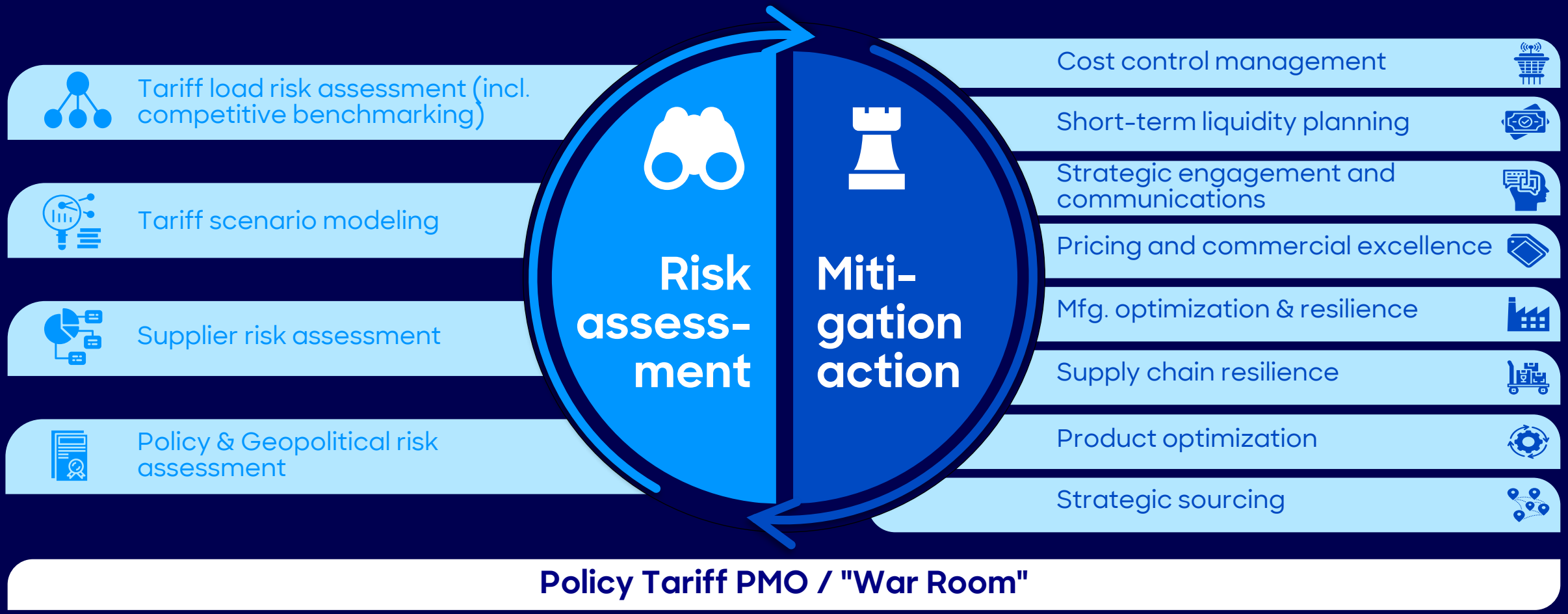
What do firms need to ensure?

- Clear objective and level of detailing for risk assessment
- Selection of right impact assessment metrics (industry dependent)
- Repeatability/robustness of assessment mechanism/process
- Availability and recency of data for assessment

Non-exhaustive

Effectively managing uncertainty necessitates an ongoing cycle of risk evaluation and mitigation strategies to respond appropriately and promptly

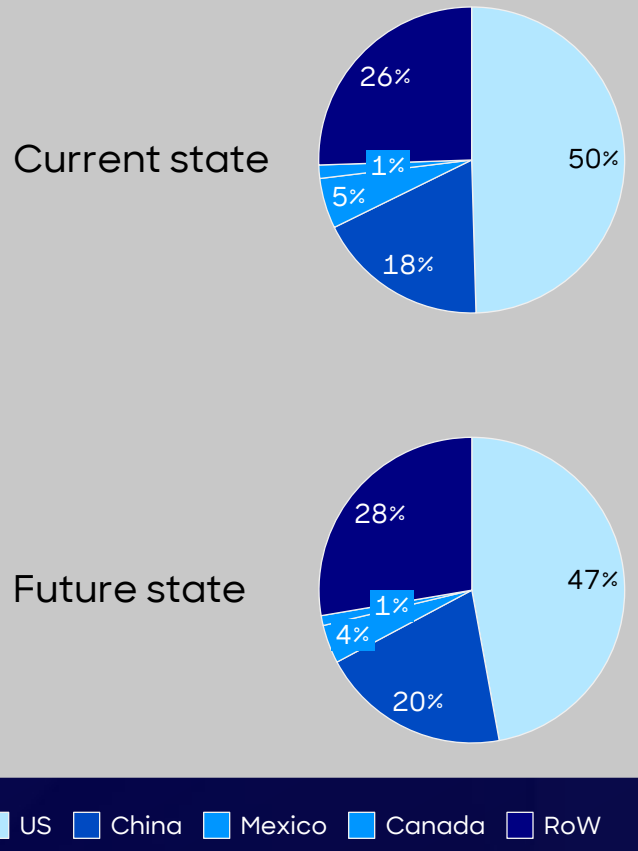
Tariff mitigation framework



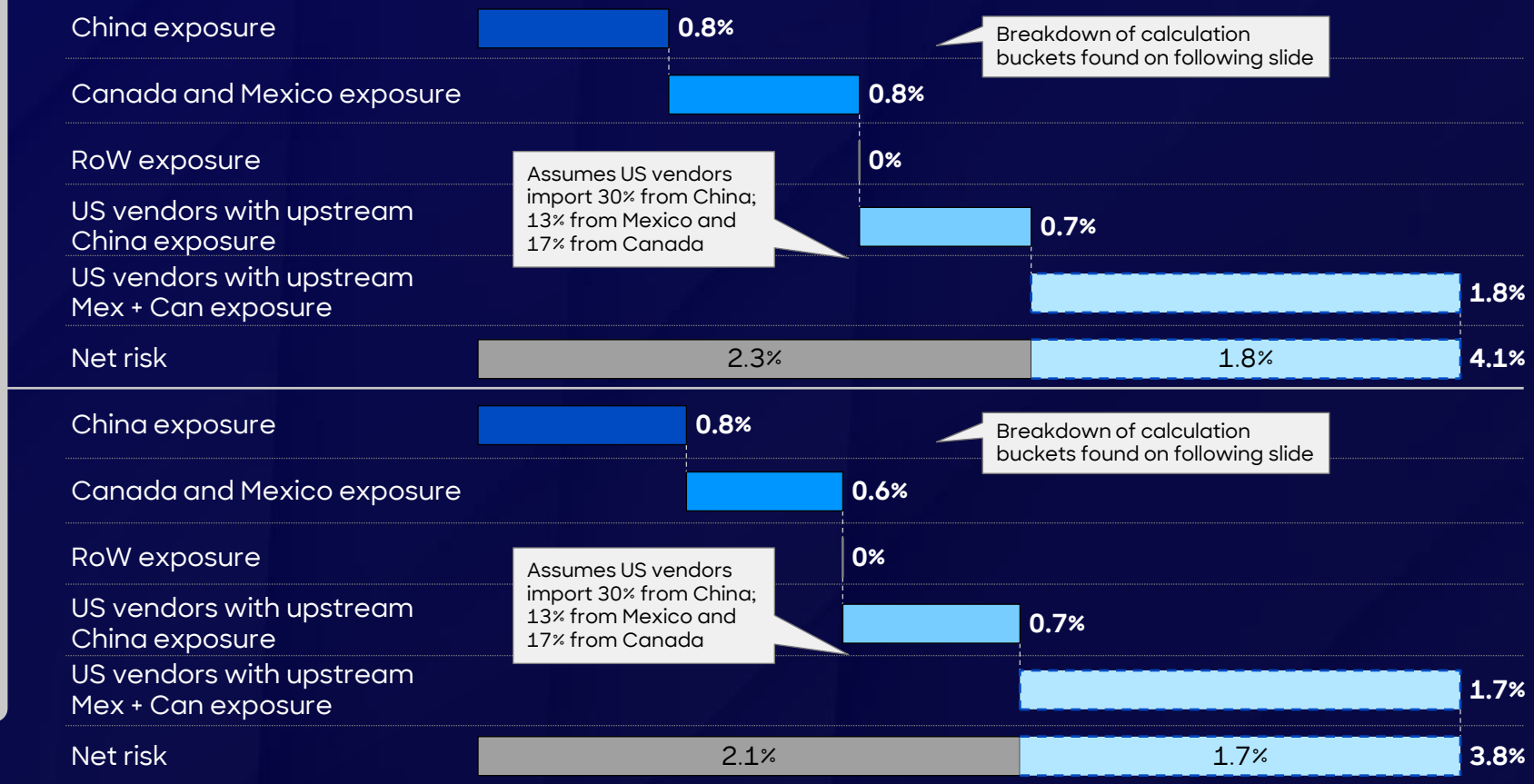
Understand your tariff load is a critical first step to evaluate your risks

Tariff impact by spend bucket - Current state and future state

Country of origin distribution



Tariff impact breakdown



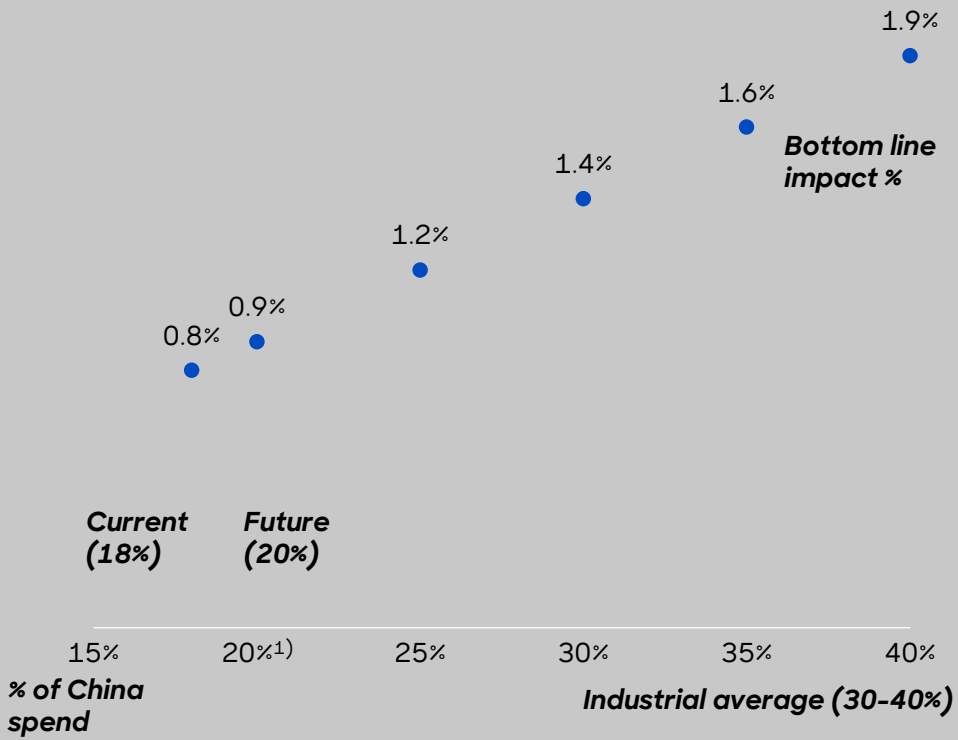
Tariff impact analysis and scenario analysis will help companies identify optimization opportunities

US-China tariff impact estimation deep-dive

Bottom line impact from Tariff

Δ of Tariff % on China imported	• Prior weighted tariff was 24%, and has increased by 10% to 34%	+ 10%
First sales % of COGS	• First sales is initial transaction price from manufacturer, excluding distribution fee • Based on China supplier quotes, we estimate first sale at 60% of COGS	60%
Effective Tariff Rate (1-Tariff exemption %)	• For boating accessories, typical exemption rates from Section 301 tariffs are 15-25%	80%
China spend exposure (% of spend from China)	• China-sourced products account for 18% of 's COGS per LTM data	18%
Buffer from CNY depreciation	• During 2017-2020 US-China trade war, the CNY depreciated 2.9% against USD, with the CNY/USD rate rising from 6.95 to 7.15	97%
Bottom line impact	• Cost increase % of raising China tariffs by 10%	+0.8%

Bottom line impact of US tariff on China imports



1) Future state reflects increased volume of sourcing in China at lower baseline spend;

Several mitigation actions are available for business – what is most effective will depend on current operational health and industry-specific tariff impact

Risk mitigation options

Numbering is only indicative – actual relevance and sequencing of actions will depend on business specifics

Product optimization

Product optimization to reduce product cost while maintaining customer value & maximizing DFP[1] (e.g., material flexibility)

Strategic sourcing

Sourcing transformation to ensure optimal supply mix (including multi-sourcing), collaboration models & make vs buy

Supply chain resilience

Systematically identify risks across existing tier-X supply base and develop solutions to mitigate tariff impact

Mfg. optimization & resilience

Strategic realignment of manufacturing schedules, capacity and footprint to improve efficiency and resiliency

Pricing & commercial excellence

Assess competitive landscape and deploy pricing strategies (e.g., passthrough, tiered pricing) to mitigate tariff impact

Strategic engagement and communications

Effectively align business strategy and stakeholder messaging for favourable tariff outcomes

Short-term liquidity planning

Forecast, monitor and strategically adjust cash flow to improve liquidity (e.g., cash reserves, payment terms, selective inventory stockpiling/unloading)

Cost control management

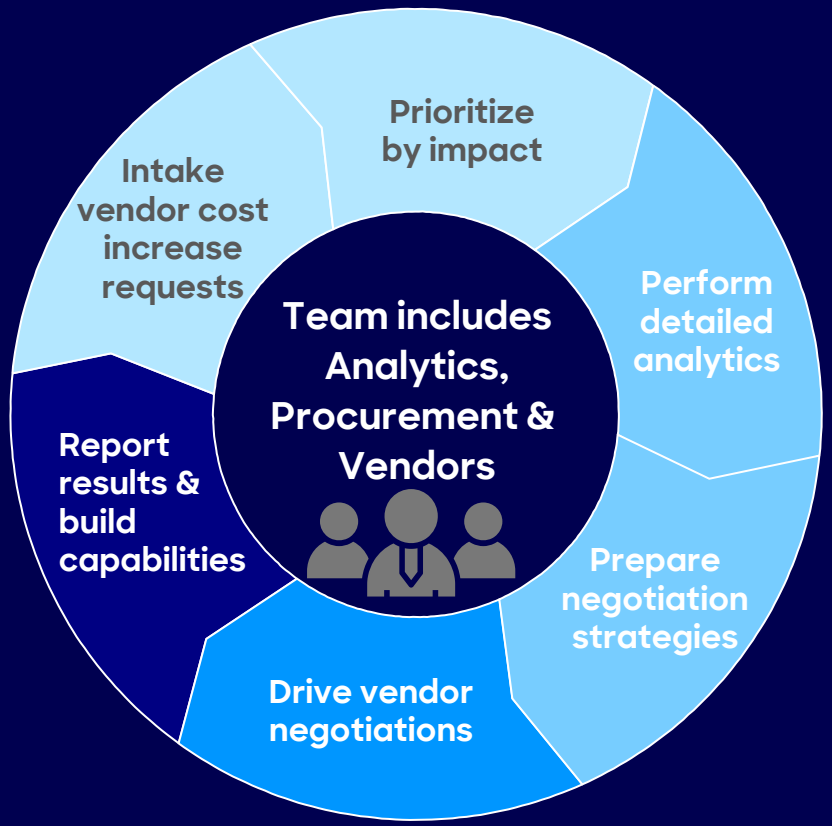
Processes & structures to manage cost escalation (e.g., should-costing)

1) Design for procurement

Non-exhaustive selection

Cost control management aims to address short-term cost increases, including tariff-driven increases, through a structured framework

Cost control management overview



Intake vendor cost increase requests
Implement a structured intake process requiring vendors to submit detailed justifications for increases, including cost drivers, market indices and historical pricing trends

Prioritize by impact
Categorize cost increase requests based on spend volume, business criticality and risk exposure to prioritize negotiation efforts on the most impactful cases

Perform detailed analytics
Conduct should-cost analysis and benchmark price increases against market trends, industry indices, and alternative suppliers to validate claims

Prepare negotiation strategies
Develop negotiation strategies using cost breakdowns, supplier insights, volume commitments and partnership incentives to counter price increases effectively

Drive vendor negotiations
Engage vendors in data-driven negotiations, leveraging alternatives, contracts and total cost considerations to reduce or mitigate increases

Report results & build capabilities
Track negotiation outcomes, quantify savings, capture insights and enhance capabilities through training and process improvements for better cost control.

Key steps:

- Quickly deploy assets to intake and pragmatically prioritize impact of cost requests
- Leveraging procurement negotiation toolkit, run spend analyses and prepare negotiations
- Conduct negotiations
- Measure results, refine strategies and identify improvement levers
- Once stabilized, short-term cost reductions can be merged into focus

When suppliers requests a price increase due to tariff hikes, it is important to use a structured approach to mitigate cost impact while maintaining relationships

Cost control mitigation strategies

1. Deflection

Delay & fact-finding

Gather data before committing–prevents quick acceptance and ensures transparency

- **Route for internal review (e.g., Indicate that an internal team evaluates all price increase requests, and it will require their approval first)**
- **Ask for justification**
- **Request supporting data**

2. Collaboration

Explore alternatives

Explore cost-neutral alternatives to maintain supplier relationships while reducing impact

- **Push for cost offsets (e.g., alternate specs, factories)**
- **Leverage competitive bids**
- **Suggest process improvements (e.g., shipping, packaging)**

3. Aggression

Hard-lined negotiations

Push back firmly if needed to challenge the increase and apply pressure

- **Challenge the increase**
- Threaten to **re-bid the business (e.g., seeking strategic alternatives)**
- **Demand alternative concessions (e.g., volume discounts, extended payment terms)**

C. Opportunity : Revenue Growth

US-based manufacturers will have to work systematically to reap the potential benefits of policy driven nearshoring

Pricing Improvements

Possible rises in costs for imported goods create a chance for price adjustments

Increase Operating Efficiency

Producers will need to enhance their internal processes to align with the newly anticipated demand

New Products/ Offerings

Demand for adjacent products will allow manufacturers to consider broadening their product portfolio

Companies must refine their pricing strategies to enhance their profitability and fully leverage any opportunity to pass-through increases

Pricing and commercial excellence overview

What is this mitigation action?

Businesses leverage their competitive positioning, customer sensitivity and supplier relationships to optimally price their products (maximize price pass through to suppliers or customers)

Key activities

- **Understand impact customer sources of supply**
  - Anticipate potential cost increases by product type as a result of tariffs
- Anticipate how customers will behave if prices increase
  - **Conjoint analysis** - Leverage pricing elasticity tool for simulations
- **Analyze competitor strategies** to understand potential moves and responses to finalize strategy
- **Evaluate potential for shifting profit recognition** to lower tax regions

Pricing elasticity testing can allow companies to determine financial impacts of pricing

Depending on business specifics, certain activities may be prioritized/ de-prioritized

Businesses that focus on manufacturing optimization will benefit from better operational capacity and efficiency

Manufacturing optimization & resilience overview

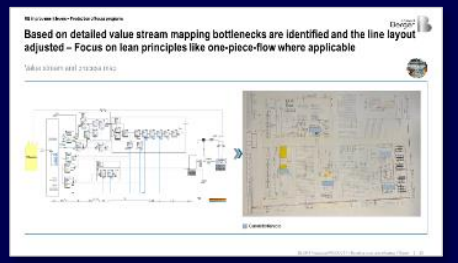
What is this mitigation action?

Strategic realignment of manufacturing capacity, processes (e.g., scheduling) and footprint to improve efficiency and drive greater throughput

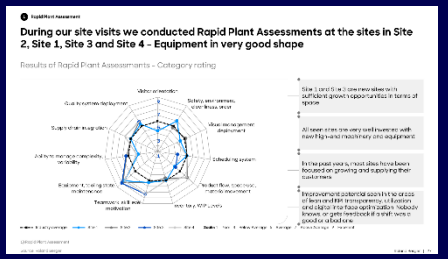
Key activities

- **Manufacturing capacity and schedule optimization –** Strategic realignment to allow for more resilient order fulfillment (e.g., selected regional inventory build-up)
- **Footprint optimization (including nearshoring and offshoring)** – Deep dive to understand current plant network performance and potential tariff impact to inform optimization mechanisms (incl. nearshoring/ reshoring)
- **Performance improvement** – Improve process efficiency without compromising on product and process quality

Mfg. capacity & schedule optimization

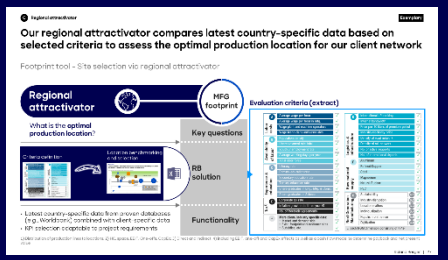


Rapid plant assessment



Production KPI database

Regional attractivator / footprint analysis



Depending on business specifics, certain activities may be prioritized/ de-prioritized

Companies should carefully consider growth options: One process is the four-step method for identifying and evaluating strategic growth opportunities

Strategic options overview

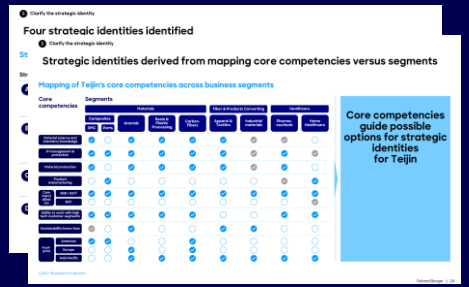
4 step approach

1. Clarify the strategic identity
2. Identify where to divest and invest
3. Determine structural requirements to support the portfolio decision
4. Assess financial profile of strategic options for implication to overall business

Key activities

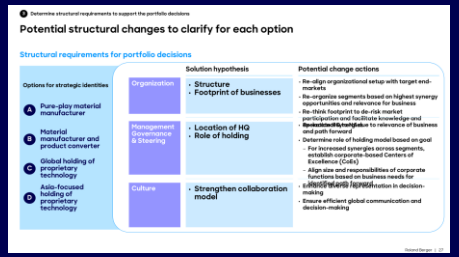
- **Strategic vision:** Define strategic vision in line with goals and assess as-is core capabilities and right-to-be across segments
- **Initial hypothesis on portfolio:** Conduct first analysis on segments' performance and key challenges and outline relevant segments' market dynamics and trends
- **Identify business areas for structural change:** Derive initial hypothesis for structural change; include organization, governance & steering, and culture
- **Analysis of business performance:** Identify financial metrics aligned with growth targets and conduct first analysis of business' as-is financial performance

Clarify strategic identity

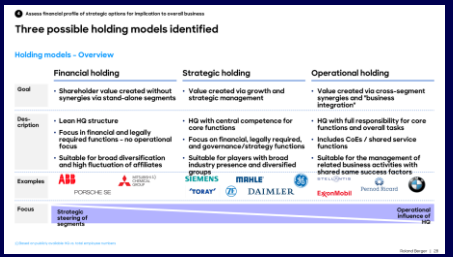


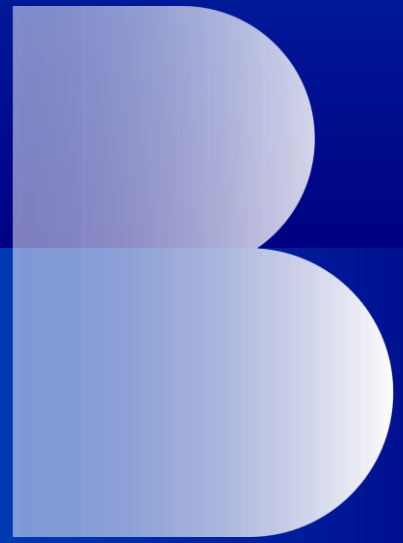
Identify where to divest, invest, or optimize

Determine structural requirements



Assess financial profile





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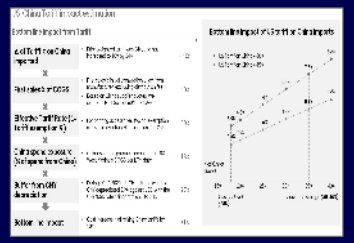
Depending on business specifics, certain activities may be prioritized/ de-prioritized | Non-exhaustive

Roland Berger provides a comprehensive range of risk assessment tools designed to provide full situational transparency

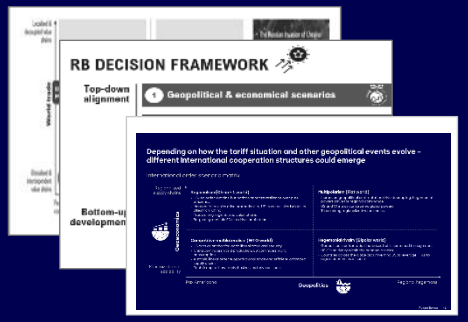
Risk assessment: Approach and tool overview (selection)

Tariff load risk assessment (incl. competitive benchmarking)



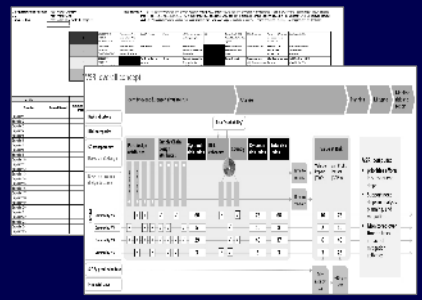
- Develop full BOM[1)] transparency for self and peers/ competition
- What is tariff impact on competition/ peers and what are they doing in response
- Understand relative impact (vs peers) of tariffs
- Sensitivity analysis

Scenario planning (Tariff)



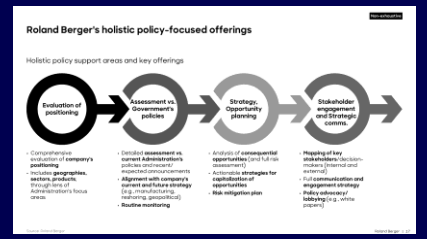
- Identify potential scenarios considering key uncertainties
- Evaluate impact of different tariff scenarios on top-line and bottom-line
- Scenario-based identification of optimal supply base that minimizes risk (basis existing BOM and supplier locations)

Supply risk assessment



- Determine KPIs to evaluate supplier health
- Evaluate suppliers across all product categories to identify risk clusters (deep dive on critical suppliers)
- Provide overall view on supply health risk

Policy & Geopolitical risk assessment



- Conduct scenario planning (short/med/long term) including political/ geopolitical considerations, impact evaluation
- Structure potential risks and stakeholder responses, outlining mitigation options

1) Bill of Materials

Deep-dive in next slide

RB can provide a full suite of holistic policy-focused offerings, including full policy analysis, geopolitical risk assessment, and stakeholder mapping

Policy & Geopolitical risk assessment: Holistic policy support areas and key offerings

- Comprehensive evaluation of **company's existing positioning** in terms of potential tariff impact
  - Include analysis across all relevant products, sectors and geographies

- Detailed **assessment vs. current Administration's** policies and recent/ expected announcements
- **Understand impact on company's current and future strategy** (e.g., manufacturing)
- **Routine monitoring**

- Analysis of **consequential opportunities** (and full risk assessment)
- Actionable **strategies for capitalization of opportunities**
- **Risk mitigation plan**

- **Mapping of key stakeholders**/decision-makers (internal and external)
  - Internal: C-Suite, Board of Directors, senior management, decision-makers
  - External: Shareholders/ investors, customers, public
  - Government: Federal, state, and local officials
- Full **communication and engagement strategy**
- **Policy communication** (e.g., white papers)

As of April 17, 2025

RB developed a model to examine the impact of reciprocal tariffs enacted by the US and the counter tariffs (primarily only done by China so far)

Scenario description and assumptions

Scenario:
Tariff hammer

- **Reciprocal tariffs are paused** for 90 days for all countries who did not retaliate
- **US blanket tariffs** of 10% as a minimum tariff on all countries
- US tariffs of **145%** (up to 245%[1]) for some products) **on imports from China**
- Chinese **retaliatory tariffs of 125%** remain in place (China also halted export of rare earths)
- **Section 232** tariffs on steel, aluminum, cars and car parts (25%) remain **in place**
- **Recent relief over electronics will prove short-lived**

Assumptions:
Tariffs in place

	US tariffs on …	Retaliation tariffs on US from..
Australia	10%	0%
Brazil	10%	0%
China	145%[1]	125%[2]
UK	10%	0%
India	10%	0%
Japan	10%	0%
South Korea	10%	0%
Malaysia	10%	0%
Taiwan	10%	0%
Vietnam	10%	0%
EU	10%	0%

1) The average effective rate for most imported goods from China is 145% with tariffs of up to 245% being applicable for a narrow set of products (Syringes, needles, etc.). In the RB model, an effective tariff rate of 145% is applied to account for the effective rate across most affected goods; 2) By April 11, China responded with its own retaliatory tariffs, set at 125%

Source: CNBC, The Guardian, Roland Berger

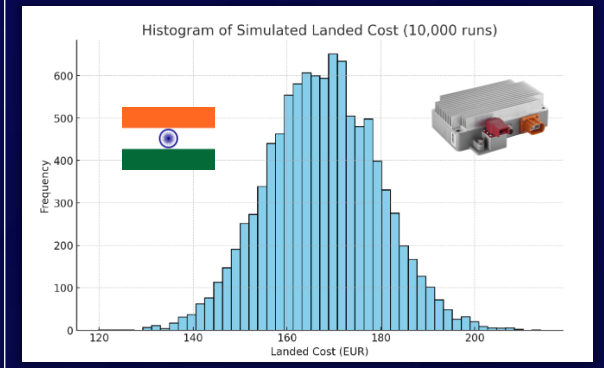
For deeper insight, we can apply Monte Carlo simulations to model probabilistic tariff scenarios

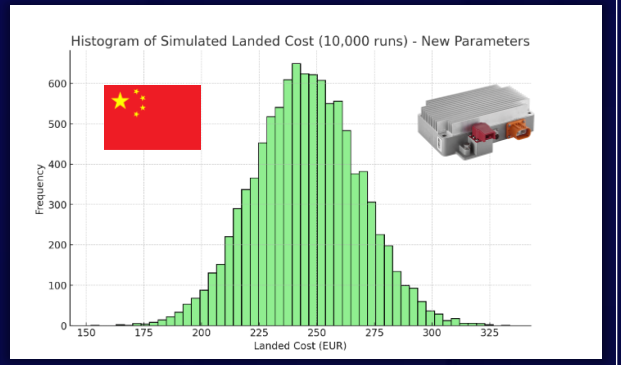
RB tariff scenario modelling utilizing the PolarixPartners tariff modelling tool

Overview of dynamic assessment

1) Break down/classify all costs (should-costing, var. vs. fixed mfg. costs, etc.)
2) Identify uncertain factors and define appropriate probability distributions
3) Perform Monte Carlo simulation & analyze out-put by country component
4) Map results into each pre-defined scenario to determine best course of action by component (or system/subsystem)

Monte Carlo Simulation for Landed Cost Scenarios





Scenario 1: India DC-DC Converter

- In 90% of cases the landed cost is between 148 EUR and 187 EUR
- Mean landed cost: 167.53 EUR

Scenario 2: China DC-DC Converter

- In 90% of cases the landed cost is between 208 EUR to 283 EUR
- Mean Landed Cost: 245.53 EUR

Illustrative example

Uncertainty means that we neither know the events that might occur in the future nor their likelihood

Definition of uncertainty

Risk

- **Future events**: Known
- **Probability**: Known
- **Impact**: We can work out which alternative is the more beneficial one

Unpredictability

- **Future events**: Known
- **Probability**: Unknown
- **Impact**: It is difficult to analyze which alternative would be better. But we still have an understanding of the future

Uncertainty

- **Future events**: Unknown
- **Probability**: Unknown
- **Impact**: We can no longer know what might happen at all. There is no reliable way of predicting either changes or the speed at which they could occur

?

"Our existing knowledge does not provide a sufficient base for a calculated expectation."
John Maynard Keynes

Source: Leipzig Graduate School of Management; Roland Berger

Uncertainties lead to rapid external changes and internal complexities, making it more difficult to plan ahead

Consequences of uncertainty

- **External environments change quickly** and without a possibility to foresee events
- **Individual and consumer behavior** are unpredictable and reactionary
- **Strategies** cannot be planned in traditional, long-term time horizons or limited option sets
- **Common strategic tools** are not applicable anymore

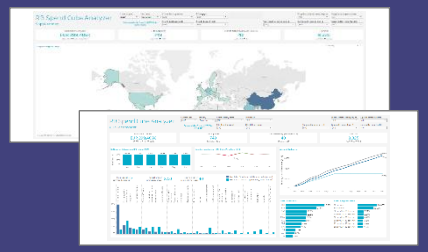
Source: Leipzig Graduate School of Management; Roland Berger

Non-exhaustive

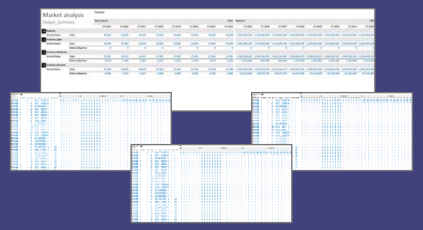
We leverage a robust and comprehensive suite of proprietary tools in all our analyses – ensuring time efficiency and leveraging best practices

Overview of Roland Berger suite of tools and methods

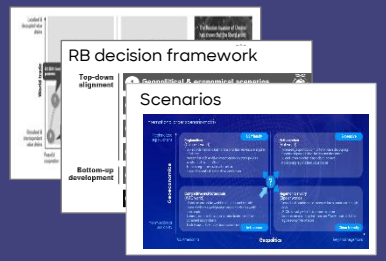
Spend cube analyzer



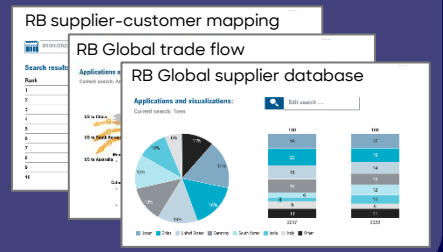
Tariff load assessment



Scenario planning & simulation models



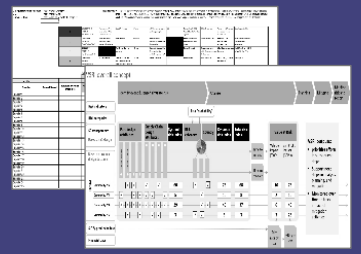
Supplier database



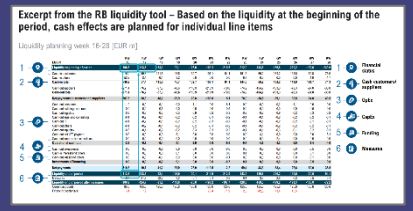
Product costing database[1)]

POLARIX PARTNER
a Roland Berger company

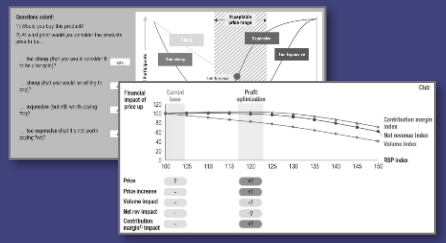
Supplier selection



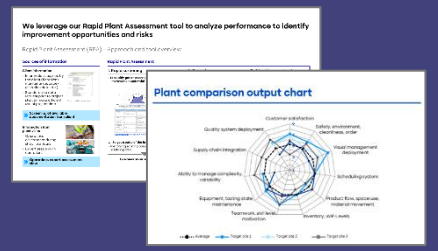
Liquidity planning



Pricing elasticity



Rapid plant assessment



Other tools

- Trade optimizer
- HS Code optimizer
- Regional attractivator
- …

1) Polarix Partners (a RB company) has a Polarix costing (PXC) tool and database that provides full transparency on product costing based on material know-how, product BOM understanding, teardown experience, etc.

In times of uncertainty, traditional strategy tools come to their limits and are no longer applicable

Traditional strategy tools - Examples

If the time series of future cash flows in uncertain, even the analytical **capital pricing model** can't give us any certainty regarding the valuation of companies or investments

If growth rates can no longer be projected, the **experience curve** can't supply us any longer with reliable strategic cost information

If the experience curve is no longer applicable, **portfolio strategies** might lead us into the wrong direction

If the lines that separate industries become blurred and unclear, **Porter's Five Forces** reach their analytical limits

If we can no longer say who our competitors are, we don't have a reference for a **competition analysis**

Source: Leipzig Graduate School of Management; Roland Berger

To better prepare for uncertainties, organizations need to allow for slack and manage trade-offs in order to think in scenarios

Measures against uncertainties

Allow for organizational slack

- **Keep surplus resources** (capital, staff, ideas, mitigation actions) as a buffer
- **Use these resources to react** to unexpected events or to develop new ideas / mitigation actions
- **Understand that organizational slack is not always bad** (insurance premium)

Manage trade-offs

- **Think and make decisions in trade-offs:**
  - Diversity vs. simplicity
  - Innovation vs. efficiency
  - Learning vs. routine
  - Differentiation vs. integration
  - Networks vs. hierarchies
  - Cost vs. Security

Think in future scenarios

- **Go beyond "best-case/ worst-case"** simulations
  - **Use an interdisciplinary approach** (macroeconomics, geopolitics, technology etc.) to develop scenarios
  - **Formulate scenarios with sufficient clarity**
  - **Define modular and interlinked scenarios** to enable fast switching between scenarios
- **Identify and monitor tipping points** between scenarios:
  - Identify when a scenario becomes **obsolete**
  - **Make monitoring of tipping points** the core business of the Controlling department

Source: Leipzig Graduate School of Management; Roland Berger

How do we define the expended end-state in a rapidly changing environment?

EXAMPLE Scenario matrix (1/4)

Dimension 1

Return to political-economic stability (fast, slow)

Will trade wars, the tariffs, geopolitical tensions, and inconsistent policies prolong uncertainty and disrupt global trade?

Or will global trade return to relative stability, enabling a recovery of EV market growth (or even subsidies and infrastructure investments in the long run)?

Dimension 2

Change in customer behavior (comprehensive, hardly)

Will customers increasingly adopt EVs due to improved value proposition, environmental awareness and affordability despite the headwinds?

Or will traditional vehicle preferences persist/ re-emerge due to economic pressures and limited charging infrastructure?

Start by identifying the two most relevant dimensions that can describe the potential future outcomes

Identify and describe the future outcomes in the context of these dimensions

Source: Leipzig Graduate School of Management; Roland Berger

How do we define scenarios? – First step is to identify potential dimensions of change

EXAMPLE Scenario matrix – Our scenarios (2/4)

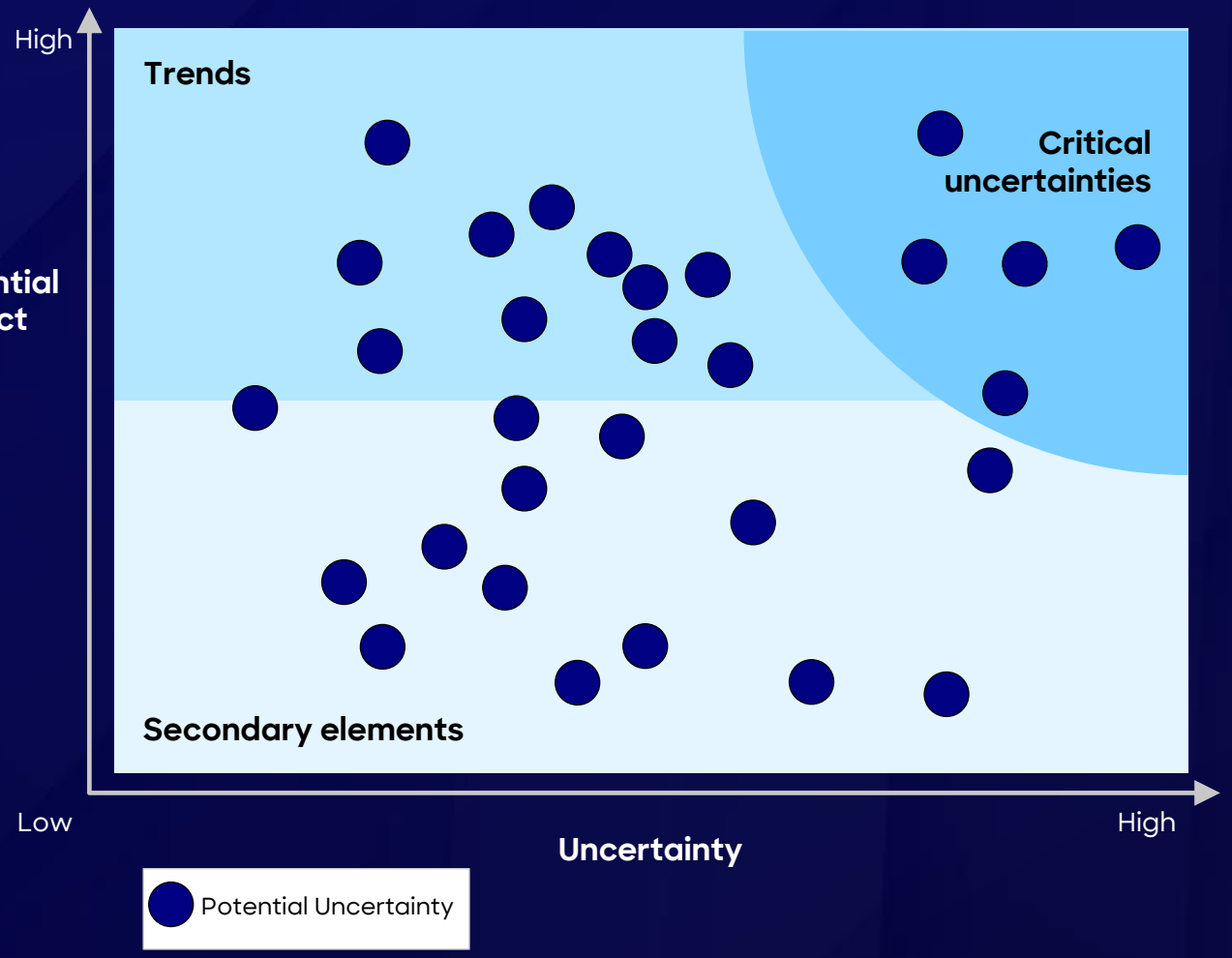
	Examples
Economic environment	• Growth paths / EV penetration • Competitive environment
Geopolitical stability	• Trade conflicts including Tariffs • Crises/wars
Technological developments	• Battery technology • Digitization / Cyber security
Legal and political environment	• Regulations/ Subsidies (or lack of) • Political initiatives
Social environment	• Consumer Sentiment • Preferences ICE vs. EV

There are typically five topic areas, from which scenario dimensions can be derived based on media analysis, expert interviews, surveys, market observation etc.

Source: Leipzig Graduate School of Management; Roland Berger

Next, these drivers and trends need to be evaluated in order to identify those which are most critical uncertainties

Example - Uncertainty matrix – Prioritization

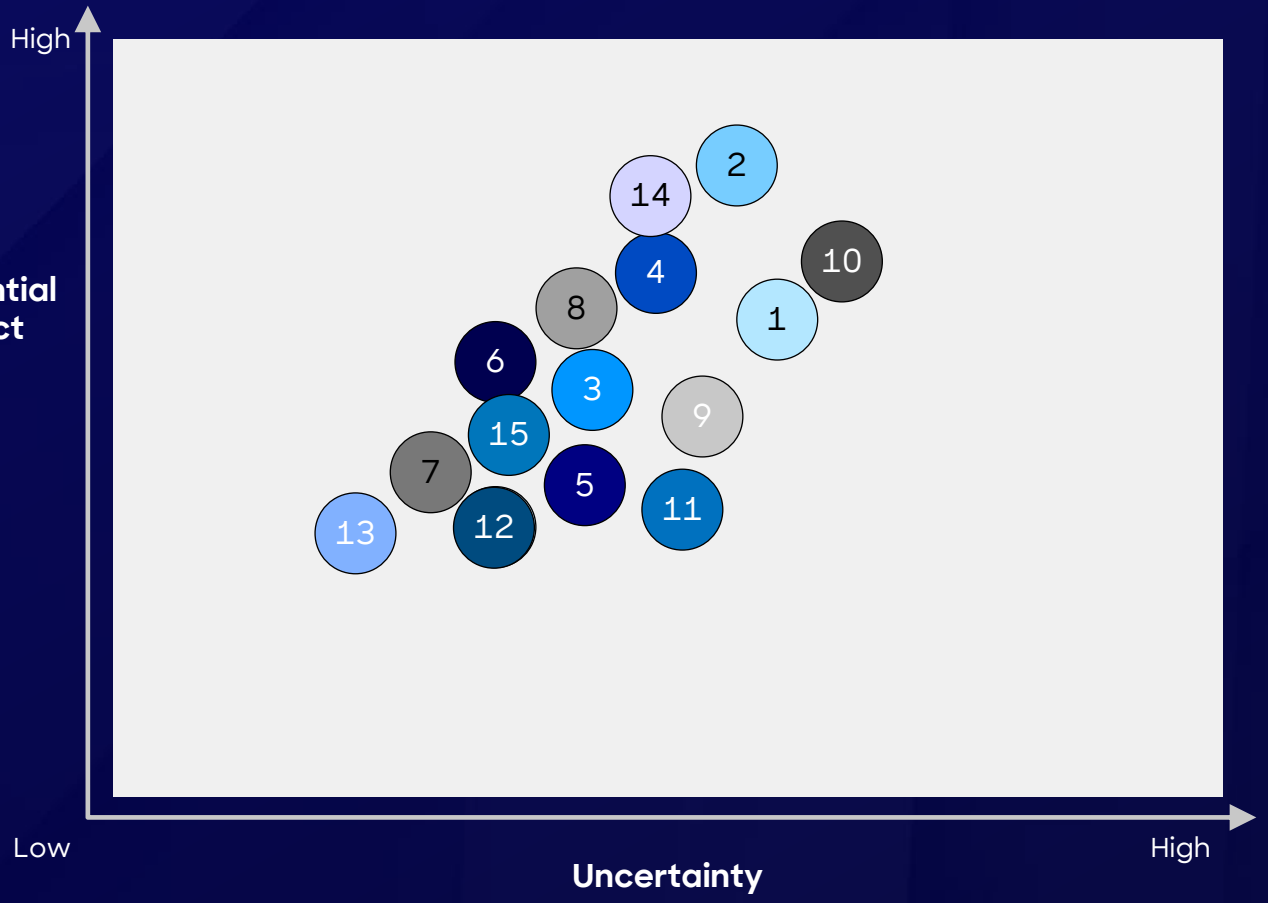


Critical Uncertainties
Drivers which have high uncertainty and high potential impact

Trends are drivers which are not highly uncertain, and therefore won't be helpful in defining our scenarios

The prioritization and selection of most relevant dimensions can be done in interactive workshops

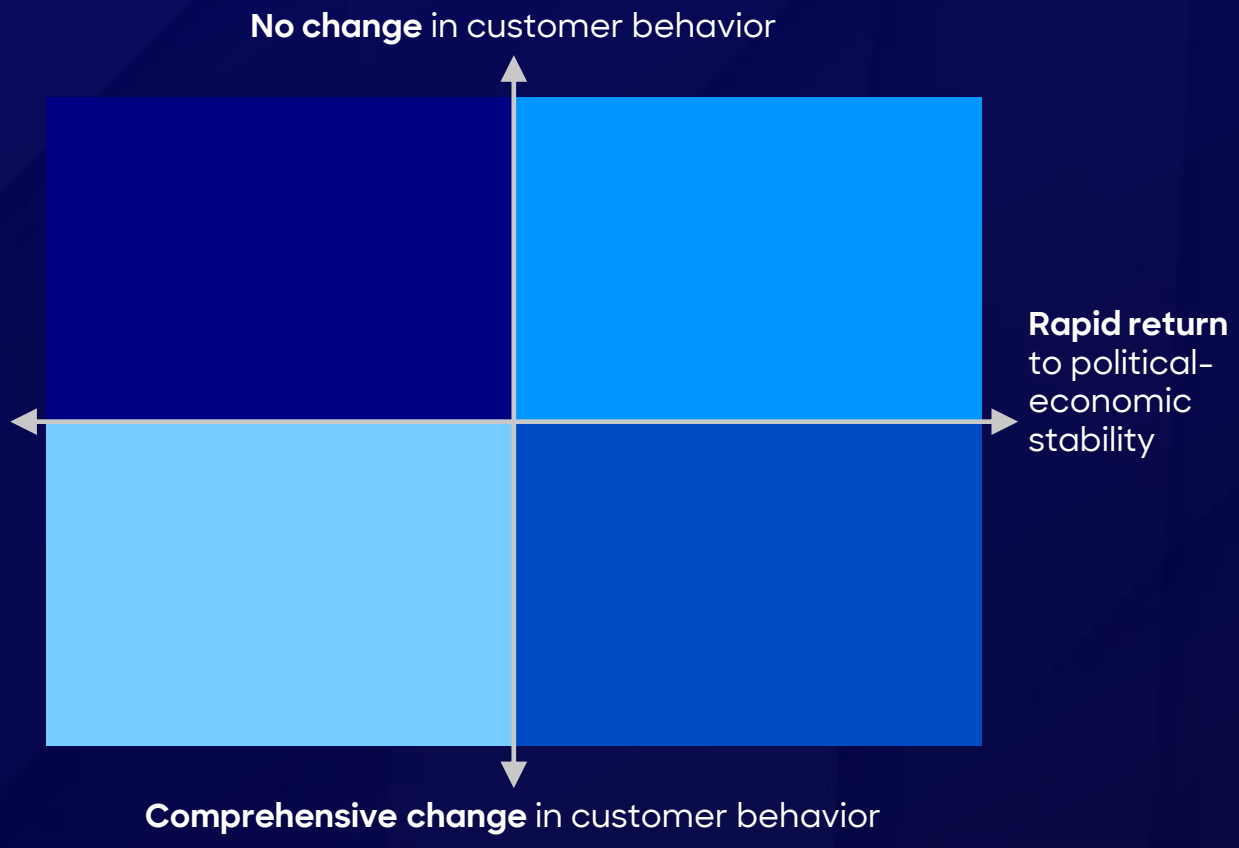
Project Example: Voting results for an A&D company



1. Government policy (Trump vs. Biden, environment, travel)
2. Propensity to travel (WFH tech, travel fear, segments)
3. Airline industry consolidation
4. Change in consumer behavior (pandemic, environmental concerns)
5. Airplane redesign (e.g. filters, middle seats, etc.)
6. Regionalization vs. globalization
7. Ruralization vs. globalization
8. Availability of other modes of transportation / new mobility
9. Cost structure (oil price, airport economics, carbon taxes, plane prices)
10. Duration of Covid (vaccine, heard immunity)
11. Trade wars
12. Change in value of cleanliness (cost to serve)
13. Change in demographics (younger population…)
14. A completely new deadly virus
15. Automation

How do we define scenarios? Let us jointly build potential scenarios

EXAMPLE Scenario matrix – Our scenarios (3/4)



By **crossing** the two **identified dimensions**, we receive **four scenarios** as potential future outcomes

Source: Leipzig Graduate School of Management; Roland Berger

The result is a Scenario Matrix that depicts four possible scenarios that are likely

EXAMPLE Scenario matrix – Our scenarios (4/4)

Safe World
No fundamental changes in strategy are necessary due to a rapid restoration of stability and trust as well as no lasting changes in customer behavior

New Horizons
New opportunities for business models arise due to a rapid restoration of stability and trust paired with significant changes in customer behavior

Valley of Tears
A **deep recession**, political instability and further protectionism results from unchanged customer behavior, a long phase of instability and lack of trust

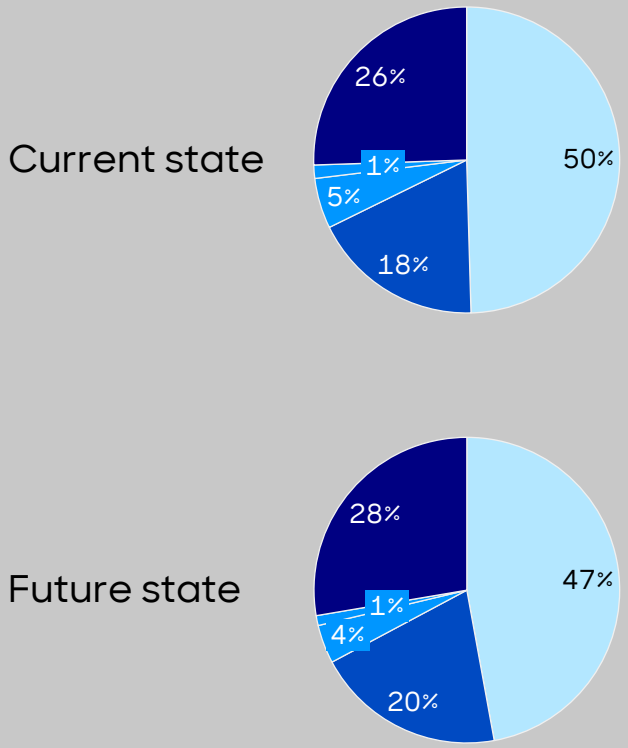
Breaking Test
Existing business models are challenged by a long economic crisis, which is accompanied by changes in customer behavior

Source: Leipzig Graduate School of Management; Roland Berger

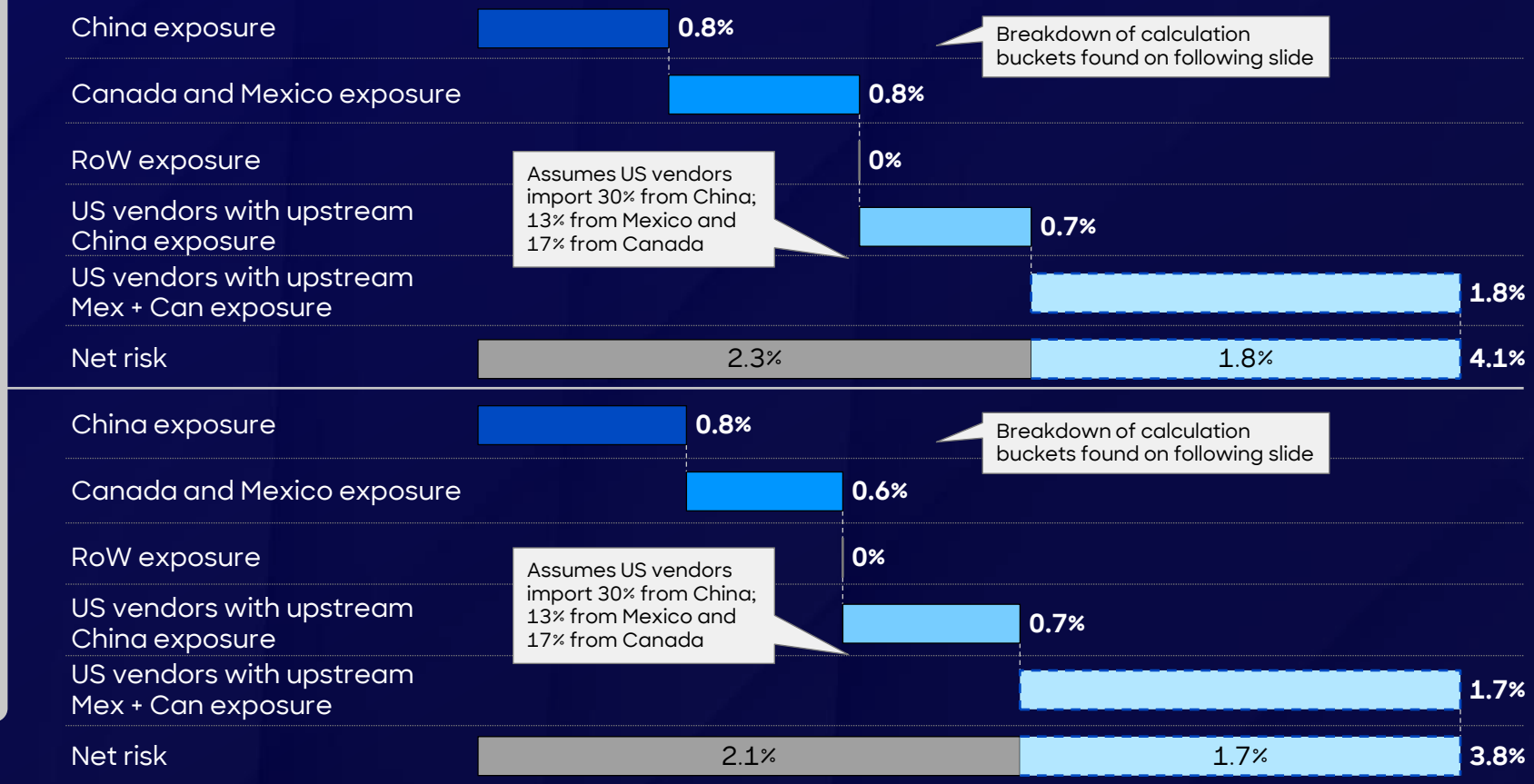
The overall impact of tariffs ranges between ~2-4% across both the current and future supply base scenarios respectively

Tariff impact by spend bucket - Current state and future state

Country of origin distribution



Tariff impact breakdown



A 10% tariff increase on Chinese imports has been enacted, resulting in potential 0.8% increase to COGS

US-China tariff impact estimation deep-dive

Bottom line impact from Tariff

Δ of Tariff % on China imported	• Prior weighted tariff was 24%, and has increased by 10% to 34%	+ 10%
×		
First sales % of COGS	• First sales is initial transaction price from manufacturer, excluding distribution fee • Based on China supplier quotes, we estimate first sale at 60% of COGS	60%
×		
Effective Tariff Rate (1-Tariff exemption %)	• For boating accessories, typical exemption rates from Section 301 tariffs are 15-25%	80%
×		
China spend exposure (% of spend from China)	• China-sourced products account for 18% of 's COGS per LTM data	18%
×		
Buffer from CNY depreciation	• During 2017-2020 US-China trade war, the CNY depreciated 2.9% against USD, with the CNY/USD rate rising from 6.95 to 7.15	97%
Bottom line impact	• Cost increase % of raising China tariffs by 10%	+0.8%

Bottom line impact of US tariff on China imports

1) Future state reflects increased volume of sourcing in China at lower baseline spend;

Risk mitigation options

1) Design for procurement

Non-exhaustive

Companies can enhance their resilience by implementing proactive measures to mitigate systemic risk

Risk mitigation options

Numbering is only indicative – actual relevance and sequencing of actions will depend on business specifics

Short-term

Cost control management

Processes & structures to manage cost escalation – mix of internal and external levers (e.g., supplier negotiations supported by product should costing)

1

Short-term liquidity planning

Forecast, monitor and strategically adjust cash flow to improve liquidity (e.g., cash reserves, payment terms, selective inventory stockpiling/unloading)

2

Strategic engagement and communications

Effectively align business strategy and stakeholder messaging for favorable tariff outcomes

3

Pricing & commercial excellence

Assess competitive landscape and deploy pricing strategies (e.g., passthrough, tiered pricing) to mitigate tariff impact

4

Medium to long-term

Mfg. optimization & resilience

Strategic realignment of manufacturing schedules, capacity and footprint to improve efficiency and resiliency

5

Supply chain resilience

Systematically identify risks across existing tier-X supply base and develop solutions to mitigate tariff impact

6

Product optimization

Product optimization to reduce product cost while maintaining customer value & maximizing DFP[1)] (e.g., material flexibility)

7

Strategic sourcing

Sourcing transformation to ensure optimal supply mix (including multi-sourcing), collaboration models and make vs. buy

8

1) Design for procurement