AlixPartners Reshoring/Nearshoring Executive Survey and Outlook

March 2014
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➢ Survey Objectives & Methodology

• Survey Results
Survey Overview

**Date:** March 2014

**Population:** 143 senior executives from manufacturing and distribution businesses that sell into the U.S. market, representing more than 13 different industries

**Methodology:**
- Web-based survey conducted by AlixPartners

**Survey focus:**
- Reshoring/nearshoring-location attractiveness, including U.S. and Mexico rankings
- The influence of demand outside the U.S. on manufacturing-sourcing decisions
- The U.S. government’s influence on near-term manufacturing-sourcing decisions
- Mexico security issues

The terms “reshoring” and “nearshoring” refer to the relocation of outsourced supply closer to the center of gravity for demand. This survey, now in its fourth year, seeks to address questions paramount to decision-making per manufacturing-sourcing.
Survey Demographics: More than 13 different industries, a broad range of company sizes

<table>
<thead>
<tr>
<th>Industry Breakdown of Sample</th>
<th>% of Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive / Heavy Equipment</td>
<td>17.5%</td>
</tr>
<tr>
<td>Logistics / Transportation</td>
<td>15.4%</td>
</tr>
<tr>
<td>Apparel / Footwear / Soft Goods</td>
<td>11.2%</td>
</tr>
<tr>
<td>Consumer Packaged Goods</td>
<td>10.5%</td>
</tr>
<tr>
<td>Chemicals / Resins</td>
<td>7.7%</td>
</tr>
<tr>
<td>Electronics / High Tech</td>
<td>7.7%</td>
</tr>
<tr>
<td>Durable Goods (e.g. appliances, machinery, sports equipment)</td>
<td>6.3%</td>
</tr>
<tr>
<td>Life Sciences / Medical Equipment / Pharma</td>
<td>6.3%</td>
</tr>
<tr>
<td>Metals / Mining</td>
<td>5.6%</td>
</tr>
<tr>
<td>Building Products / Engineering / Construction</td>
<td>5.6%</td>
</tr>
<tr>
<td>Packaging</td>
<td>2.1%</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>2.1%</td>
</tr>
<tr>
<td>Other</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Company Revenues

- <$100M: 23.2%
- $100M - $500M: 18.3%
- $500M - $1B: 11.3%
- $1B - $3B: 20.4%
- $3B+: 26.8%
Respondents’ manufacturing locations represent a diversified global footprint

Operational Location(s) Currently Serving U.S. Customer Base

<table>
<thead>
<tr>
<th>Location</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>60%</td>
</tr>
<tr>
<td>China</td>
<td>55%</td>
</tr>
<tr>
<td>Mexico</td>
<td>37%</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>29%</td>
</tr>
<tr>
<td>East Asia</td>
<td>27%</td>
</tr>
<tr>
<td>Western Europe</td>
<td>26%</td>
</tr>
<tr>
<td>Canada</td>
<td>26%</td>
</tr>
<tr>
<td>Asian Subcontinent</td>
<td>26%</td>
</tr>
<tr>
<td>South America</td>
<td>21%</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>14%</td>
</tr>
<tr>
<td>Australia/Pacific Rim</td>
<td>10%</td>
</tr>
<tr>
<td>Central America</td>
<td>8%</td>
</tr>
<tr>
<td>Africa</td>
<td>8%</td>
</tr>
<tr>
<td>Caribbean</td>
<td>4%</td>
</tr>
<tr>
<td>Russia</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>13%</td>
</tr>
</tbody>
</table>
On average, companies utilize about nine locations outside the U.S. to supply U.S. Demand

How many manufacturing operations (JV, owned or third-party) satisfying demands for your U.S. customer base are located in the areas specified above?

Weighted average = 9.4
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➢ Survey Results
40% feel increases in foreign market demand would reduce foreign capacity; of those, 52% plan to increase capacity in, or closer to, the U.S.

**Do you expect foreign market demand for your products to increase in the near future, and therefore reduce capacity available for US market demand?**

- **Yes**: 40.2%
- **No**: 59.8%

**How do you plan to continue to meet US market demand if your non-U.S. capacity is increasingly dedicated to meeting foreign market demand?**

- **Increase capacity in the US**: 33.3%
- **Increase foreign capacity closer to the US**: 19.1%
- **Meeting U.S demand is not a near term (3 years or less) issue, our current footprint has plenty of...**: 19.1%
- **Increase foreign capacity in facilities outside the Americas**: 14.3%
- **Other (Please Specify)**: 9.5%
- **I expect U.S. demand to decrease or remain flat**: 4.8%
- **I don't plan to try to meet growing U.S. market demand**: 0.0%
The decision to reshore/nearshore remains important, with 81% saying the decision is important to their company.
99% say the importance of making reshoring/nearshoring decisions is the same or higher as last year

How would you describe the importance of your company making nearshoring / reshoring decisions now relative to a year ago?

- More important now than it was a year ago: 32% (2012), 22% (2013), 26% (2014)
- About the same as it was a year ago: 64% (2012), 78% (2013), 73% (2014)
- Less important than it was a year ago: 3% (2012), 0% (2013), 1% (2014)
41% see reshoring/nearshoring as an opportunity; 86% have or expect to in 2-3 years

**Is Nearshoring a possible opportunity for your company to serve U.S. demand requirements?**

**How soon are you likely to relocate operations to the Americas to "nearshore" for U.S. demand requirements?**
50% of companies have reduced or expect to reduce total landed costs more than 6% as a result of reshoring/nearshoring, vs. 58% in 2013

How much did you (or do you expect to) reduce your Total Landed Costs for those goods you have "nearshored" (or are considering nearshoring) versus the previous (or current) production location?

Costs increased after nearshoring 2013 2014
0 – 5% 42% 42%
6 – 10% 30% 28%
11 – 15% 16% 11%
16 – 20% 12% 6%
20%+ 6% 6%

Weighted average = 6.4% reduction in total landed costs
**What are the biggest advantages you would expect from a nearshoring decision?**

<table>
<thead>
<tr>
<th>Advantage</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved speed-to-market / Lower inventory (in-transit) costs</td>
<td>67%</td>
<td>71%</td>
</tr>
<tr>
<td>Lower freight costs</td>
<td>59%</td>
<td>75%</td>
</tr>
<tr>
<td>Customer service improvements / Proximity to customer*</td>
<td>42%</td>
<td></td>
</tr>
<tr>
<td>Fewer supply disruptions</td>
<td>30%</td>
<td>35%</td>
</tr>
<tr>
<td>Import duty and tax benefits*</td>
<td>19%</td>
<td>21%</td>
</tr>
<tr>
<td>Better quality control</td>
<td>18%</td>
<td>16%</td>
</tr>
<tr>
<td>Time-zone advantages (easier management coordination, etc.)</td>
<td>13%</td>
<td>17%</td>
</tr>
<tr>
<td>Lower input costs (e.g., natural gas, raw materials)</td>
<td>12%</td>
<td>14%</td>
</tr>
<tr>
<td>Improved intellectual property security</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Shrinking wage gap</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Respondents were asked to select top three choices; totals will add to more than 100%

* Included as new categories in the 2014 version of the survey
Reshoring/nearshoring is not easy; in order to realize the advantages, companies must overcome a myriad of challenges.

What are the biggest challenges you have had or expect to have with nearshoring operations?

- Labor costs: 44%
- Capacity, customer approval, localizing of supply: 36%
- Availability of Skilled Labor: 33%
- Quality and consistency: 30%
- Local government regulations: 29%
- Transportation - cross border: 16%
- Personnel management/labor law: 16%
- Security of personnel: 14%
- Transportation - in country: 13%
- Customs regulations: 13%
- Security of products: 11%
- Warehouse site location: 10%
- Corruption: 10%
- Currency risk (exchange rates): 8%
- Tax issues: 8%
- Other: 8%
- Availability of equipment: 4%

Respondents were asked to select top three choices; totals will add to more than 100%.
The U.S. has now surpassed Mexico as the preferred nearshoring location, but companies should “look before they leap”.

As related to the decision of how and where to relocate your offshore manufacturing facilities, please rank each region in terms of overall attractiveness.
More than half expect security/safety issues in Mexico to improve in the next five years; 89% perceive themselves as at least somewhat informed regarding this…

What best represents your outlook on the security / safety situation in Mexico over the next 5 years?

- I expect dramatic improvement
- I expect modest improvement
- The security situation will not change
- The security situation in Mexico will actually worsen somewhat over time
- The situation in Mexico will spiral out of control

How informed is your assessment of the security situation in Mexico?

- Most Informed
- Informed
- Somewhat Informed
- Relatively Uninformed

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...But those who say they are “informed” or “highly informed” have an even more positive outlook, with nearly 70% expecting improvement within 5 years.

Outlook on Security/Safety Situation in Mexico

- **I expect dramatic improvement**
  - Highly Informed or Informed: 9%
  - Somewhat Informed or Relatively Uninformed: 2%

- **I expect modest improvement**
  - Highly Informed or Informed: 60%
  - Somewhat Informed or Relatively Uninformed: 42%

- **The security situation will not change**
  - Highly Informed or Informed: 27%
  - Somewhat Informed or Relatively Uninformed: 9%

- **The security situation in Mexico will actually worsen somewhat over time**
  - Highly Informed or Informed: 2%
  - Somewhat Informed or Relatively Uninformed: 44%

- **The situation in Mexico is spiraling out of control**
  - Highly Informed or Informed: 2%
  - Somewhat Informed or Relatively Uninformed: 4%
Respondents say the U.S. Government should reform taxes and other costs (e.g., tariffs, duties, healthcare) and minimize regulatory burdens

The most important actions the U.S. government can take to influence my company’s decision to re-shore manufacturing jobs to the US are:

- Reform tax rates: 30%
- Reduce the regulatory burden (e.g., trade and transportation regulations): 21%
- Reform tariffs / duties: 17%
- Lower healthcare costs: 12%
- Increase the growth rate of the U.S. economy: 8%
- Do nothing: 3%
- Increase government subsidies: 2%
- Other: 9%

Respondents were asked to select top three choices; percentages are based on the sum of total selections.
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