

**Covid-19 Will Trigger
Global Supply Chain
Realignment...
and What To Do About It
The Consequences of China
Ripple Effects from Coronavirus**

**Dennis Unkovic
David Iwinski Jr.**



LEADING MARKS
Identifying Solutions



Your Guide to the Marketing and Internet Wilderness

Covid-19 & Global Supply Chain

- The health crisis
- How China factories work
- The timing of Chinese New Year
- Dominoes start to tumble in China
- Dominoes reach America
- Piling on for China
- Predictions come true
- Now what?

Dennis Unkovic



Dennis Unkovic is a partner at Meyer, Unkovic & Scott LLP, a law firm of 60+ attorneys handling a wide variety of business transactions, corporate litigation, and technology and intellectual property matters.

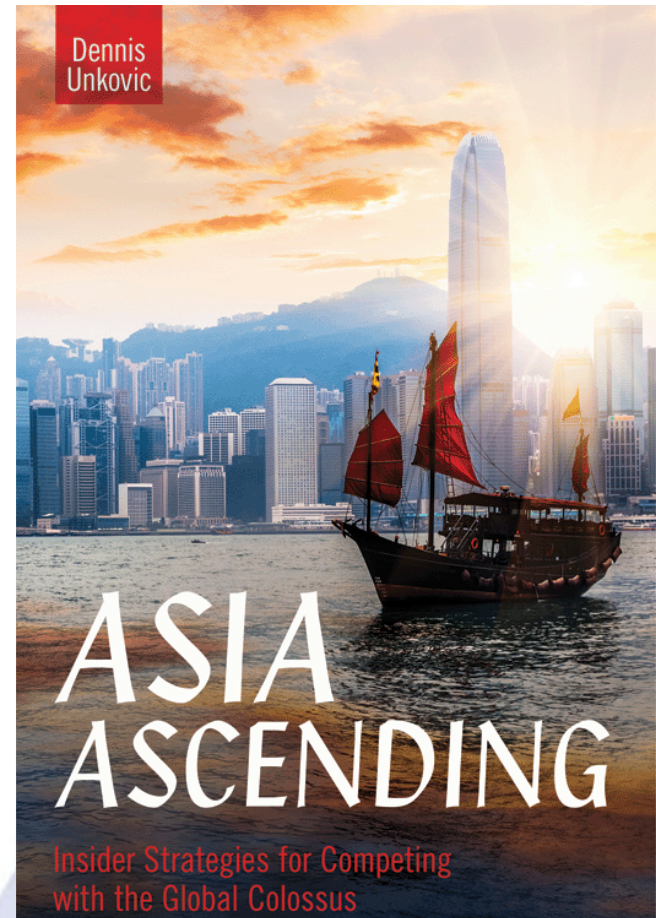
His practice focuses primarily in three areas. He handles mergers and acquisitions, joint ventures and technology licensing relationships between domestic and international companies.

Dennis has extensive experience with inbound and outbound foreign direct investment transactions and works closely with companies, financial institutions, not-for-profit entities, and trade associations in the United States and abroad. His work has taken him to over 64 countries, with particular emphasis on the Pacific Rim.

Unkovic has written nine books and over 165 articles that have been published both nationally and internationally. Dennis served from May 2015 to May 2018 as the Chairman of Meritas, a global alliance of law firms committed to rigorous quality standards for its 7,500 members around the world.

Mr. Unkovic earned his B.A. with distinction from the University of Virginia and received his J.D. from the University of Pittsburgh.

Dennis Unkovic



David Iwinski Jr.



David Iwinski has worked in international business management in Asia and Europe for over 31 years. He is currently the Managing Director of Blue Water Growth LLC, a global merger and acquisition advisory firm.

Prior to that, he was the founding Chief Executive Officer of Acusis LLC, a medical technology, software and transcription company.

Before starting Acusis, Mr. Iwinski spent four years with Respironics, living in Hong Kong, as Managing Director for China and South East Asia.

An attorney by training, Mr. Iwinski spent eight years with Daimler-Benz Transportation, working as a Contract Negotiator and later as an International Commercial Coordinator.

Mr. Iwinski earned his Bachelor of Arts degree from Duquesne University in Pittsburgh, Pennsylvania, in 1984, with a B.A. in Literature and a Minor in Music. In 1988 he earned his J.D. degree from the University of Pittsburgh School of Law.

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1. Health Crisis... on 7 May 2020

- 3,852,646 cases
- 2,269,461 active
- 266,076 deaths

The coronavirus COVID-19 is affecting 210 countries and territories around the world

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- How China factories work
- The timing of Chinese New Year

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1. Health Crisis

2. Quarantine

- Wuhan
- Huanggang
- Chibi
- Enshi
- Ezhou
- Huangshi
- Suizhou
- Qianjiang
- Xianning
- Xiantao
- Yichang
- Zhijiang
- Xiangyang
- Jingmen
- Xiaogan

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1. Health Crisis
2. Quarantine
3. Employment Crisis
 - 780 million under travel restrictions
 - New jobs closer to home or outside quarantine zones

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1. Health Crisis
2. Quarantine
3. Employment Crisis
4. Hiring / Training Crisis
 - How to find 40-60% new workers?
 - How to train 40-60% new workers?

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1. Health Crisis
2. Quarantine
3. Employment Crisis
4. Hiring / Training Crisis
5. Productivity / Quality Crisis
 - New workers aren't as fast or as good
 - Output and quality suffers

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1. Health Crisis
2. Quarantine
3. Employment Crisis
4. Hiring / Training Crisis
5. Productivity / Quality Crisis
6. Compensation / Revenue Crisis
 - Who is getting paid?
 - Working capital and liquidity issues

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1. Health Crisis
2. Quarantine
3. Employment Crisis
4. Hiring / Training Crisis
5. Productivity / Quality Crisis
6. Compensation / Revenue Crisis
7. Business Effects Flow Overseas
 - Shortage of parts, then finished goods
 - Revenue & earnings reductions globally
 - Product shortages & higher prices

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1. Health Crisis
2. Quarantine
3. Employment Crisis
4. Hiring / Training Crisis
5. Productivity / Quality Crisis
6. Compensation / Revenue Crisis
7. Business Effects Flow Overseas
8. The Health Crisis Goes Global
 - Global cases outnumber China

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Piling on and on for China...

- Rising Wages
- Debt Crisis
- Housing Bubble
- Unemployment
- Environmental Crisis
- Internal Political Unrest
- Regional Political Conflicts
- Regional Aggressive Competitors
- President Donald Trump
- Tariffs & Trade War

And then...

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To this point, what we have been sharing was analysis and prediction that was documented on February 6, 2020.

This is what we thought would happen, what we predicted would happen.

And then...

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... and it starts to happen

April 2020

**247,000 Chinese companies declare
bankruptcy in January and February**

and the decay accelerates...

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South China Morning Post

460,000 Chinese firms closed in the first quarter amid fallout from the coronavirus

Registration of new firms between January and March fell 29 per cent from a year earlier

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What does it mean for America?

Many of these factories make:

- Finished goods for US consumers
- Components and assemblies for US manufacturers
- Unique individual parts for US companies

American firms will suffer, some won't survive

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... and it gets even worse

April 20, 2020

China's Economy Shrinks by 10%

China's National Bureau of Statistics gave its bleakest-ever data release (in Chinese) last week, showing a Q1 GDP contraction. The statistics bureau also breaks down the consecutive changes in China's GDP size for the past five quarters.

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China's Economy Shrinks by 10%

- Q1 2019: 1.6% expansion
- Q2 2019: 1.5% expansion
- Q3 2019: 1.3% expansion
- Q4 2019: 1.5% expansion
- Q1 2020: **9.8% contraction**

2Q will be worse...

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Recommendations:

1. Be pessimistic regarding forecasts of recovery from China
2. Conserve capital and resources
3. Expect large-scale simultaneous supply chain realignment

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Be pessimistic regarding forecasts of recovery from China

- Current infection mortality rates seem optimistic
- Large segments are still under quarantine
- Quality and volume production will continue to suffer
- Even facilities that have retained workforce may have extreme difficulty in getting raw materials
- Inspection services are overwhelmed

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Conserve capital and resources

- Reduce shipments to non-essential customers
- Locate any available safety stock in the marketplace
- Extended payment terms
- Seek deferment of payments on leaseholds of property and product

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Expect large-scale simultaneous supply chain realignment... two options...

Realign
or
Reshore

NOW!

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Realignment

- China - Greater diversification within country
- Asia - Migration of production towards:
 - Malaysia
 - Thailand
 - Vietnam
 - India
 - Cambodia
 - Laos
 - Philippines
 - Indonesia
- Additional diversification - Latin America, Mexico

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Reshoring

- Strong trend towards reshoring driven by:
 - National self-interest on critical supplies
 - Robotics
 - Labor efficiency
 - Cost of transport
 - Cost of capital of inventory value of finished goods
- Two options:
 - Build internal capacity
 - Identify, develop and contract with domestic alternatives

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Realignment or Reshoring

- Time is of the essence
- Capacity is not unlimited
- Risk analysis and priority

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Thank you!
Time for questions



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