

# Global Supply Chain Volatility: 2022 Outlook



Amidst historic production disruption, shortages and low levels of inventory, manufacturers, distributors and retailers have been adapting business strategy real-time in response to continued volatility. There has been a rising shift in automation of distribution processes across industries as these businesses seek to profitably operate despite supply chain instability and margin pressures. Automated, real-time insights have helped suppliers remain competitive, providing direct information at every stage before a product reaches the consumer and ensuring optimal customer experience (CX) even when supply chain disruption may lead to delays.

Surprisingly, today's supply chain issues have not dented private equity (PE) appetite. Buyers continue to engage in the space but have increasingly altered diligence processes to discern whether potential targets will stabilize in line with the broader supply chain normalization expected in 2023, or if they will face long-term effects from inventory shortages, lack of automation and other issues. In general, the deal parties are leveraging a case-by-case approach to navigating supply chain nuances and issues for each industry—viewing mergers and acquisitions (M&A) as more of an art than an exact science. While there have been some delays, deals are largely completing with great outcomes.

## Global Viewpoints

In addition to the universal supply chain issues, there are challenges unique to individual regions and countries.

### EUROPE

Already burdened by the pandemic and existing supply chain challenges, the semiconductor industry is experiencing additional setbacks due to unrest in Ukraine. Ukraine is a leading supplier of neon gas, a key component of the lasers used in a phase of semiconductor fabrication. Further, Ukraine supplies gases required for chip manufacturing (xenon and krypton). The conflict has caused the depletion of semiconductor and chip reserves, already an issue, calling for companies to begin sourcing these materials from alternative suppliers.

### ASIA

China is currently experiencing a severe COVID-19 outbreak, with reported cases rising to levels not seen since the early days of the pandemic. With strict lockdowns in effect, ships are not leaving their ports. Even if the number of positive cases decreases in the near-term, the delay in goods leaving for distribution will have a ripple effect throughout the remainder of the year.

### UNITED STATES

Once the goods leave Asia, issues at ports on the West Coast of the U.S. could create further delays. In May, dockworkers and cargo-handling companies for about [22,400 workers at 29 ports](#) entered contract negotiations. Depending on how the labor negotiations progress, there could be repercussions. During the last rounds of negotiations in 2002 and 2014, not only was the distribution of goods delayed, manufacturers and retailers lost significant revenue.

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## Lincoln Perspective

Looking ahead, supply chain volatility is not apt to have a long-term effect. As COVID-19 restrictions recede and interest rate increases manage inflation, the supply chain will adjust and stabilize. Lincoln International compiled industry-specific insights as players work to remain agile and competitive throughout the supply chain crisis and in the years to come.

### CONSUMER

While consumer demand has shown some recent softening, current spending remains above historic levels. However, labor constraints, limited storage space and extended delivery times are all expected to continue for shippers in the coming year. Additionally, significantly increased shipping costs continue to drive short-term margin pressure, which we expect will result in longer-term price increases. For companies looking to minimize the supply chain's impact on revenue, investments in additional capacity-integrating technology are advised to help drive lower costs and greater stabilization across company supply chains.

### AUTOMOTIVE & TRUCK

While many automotive market participants hesitated to pursue a sale in 2021, as the supply chain begins to normalize, Lincoln forecasts that these players will begin revisiting M&A opportunities in the coming years and we expect 2022 will be an especially active year for the sale of non-core businesses. To combat the present supply chain instability, automakers are increasingly shifting toward sourcing local suppliers to mitigate supply chain risks and delays. To maximize stability and risk mitigation efforts, Lincoln also recommends that automakers, specifically original equipment manufacturers (OEMs), work to meet heightened consumer demand levels through approaches such as geographic expansion in local markets.

### LOGISTICS & TRANSPORTATION

The significant disruption and capacity constraints at each leg of the supply chain, along with shifting requirements and increased complexity driven by surging online spending is driving significant consolidation in the sector – especially as providers seek to expand service capabilities, increase controlled capacity and build scale. In recent years, logistics and transportation providers have benefited from a favorable supply / demand imbalance, ultimately driving record levels of profitability for many, especially so for those with greater network capacity. Rising labor, fuel and other significant input costs coupled with softening consumer spending on hard goods has resulted in some near-term volatility with freight rates as supply and demand dynamics become more normalized. Investors are increasingly focusing on determining a target's sustainable level of earnings once supply / demand dynamics equalize. We recommend that sellers proactively prepare for these discussions with dynamic scenario planning analyses in place.

### HEALTHCARE

Throughout the pandemic, it has been especially critical to mitigate and resolve any supply chain delays related to all aspects of pharmaceutical manufacturing. Amidst a highly contagious disease, the healthcare sector has seen sky-high demand for medication, medical services and treatments. As drugs become exceedingly specialized and complex to manufacture, pharma has increasingly relied on external strategic partners to outsource development and ensure long-term product capacity. With increased outsourcing, we don't forecast an eventual return to full in-house development. In addition, with growing focus on adoption of China Plus One sourcing strategies, we expect dual or tri-sourcing tactics will continue to gain pace in the coming years and will become the default position across many pharmaceutical portfolios.

### INDUSTRIALS

Industrials businesses are also no stranger to the present supply chain challenges as they have been navigating trade tariffs over the last several years. In the past, utilizing OEM relationships and overbuying raw materials in anticipation of supply shortages has proven successful in the sector. In combating the great resignation, many players are increasingly implementing automation as one way to circumvent labor shortages and rising labor costs.

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