VANGUARD
Industrial Holdings

Outlook 2024

Navigating the Changing Tides of Manufacturing

Securing stability amidst global shifts

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About Vanguard Industrial Holdings

Vanguard Industrial Holdings is building a portfolio of synergistic companies in the aerospace, defense, and robotics sectors. To serve these growing markets, we're searching for manufacturing businesses in the lower middle market. Our conservative 10-year milestone is to reach a total enterprise value of $468 million, with numerous options for investor liquidity, including an IPO.

Since the Fall of 2022, we've sourced in excess of 1,380 deals, evaluated more than 280 businesses, conducted 6 site visits, and submitted 4 LOIs. We have built relationships with universities and developed a culture of growth and education that develops young talent into high performers, a testament to our commitment to excellence in talent acquisition. And to improve ROI for investors, we have architected a robust deal flow engine to secure off-market deals at better valuations.

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Table of Contents

Shifting Tides: The Transition of Global Manufacturing from China to the United States

History of the US-China Manufacturing Relationship

In recent years, we've witnessed a profound transformation spurred by the dynamic shifts in global foreign policy, catalyzed by the escalating prominence of China. The roots of China's remarkable growth can be traced back to a pivotal moment in the 1970s when the landscape of U.S. foreign policy underwent a seismic change. This strategic maneuver aimed at securing access to the Pacific and establishing a commanding presence in the region, strategically poised to counterbalance Soviet influence. The decision to open the doors of the U.S. economy to China during that epoch was nothing short of a watershed moment. It laid the foundation for China's meteoric rise, setting the stage for its unprecedented economic ascent which we see today. The ripple effects of that strategic alignment are still felt today, as we navigate a complex global arena shaped by the consequences of past decisions and the ongoing interplay of geopolitical forces.

In the 1980s, a discernible trend unfolded in American corporate strategies, marked by the outsourcing of manufacturing to economically advantageous countries, including China, India, Malaysia, Pakistan, and Vietnam. This trajectory gained momentum in the subsequent decade, particularly the 1990s, witnessing an intensified influx of foreign firms relocating their production hubs to the China. The appeal of China as a destination for such endeavors lies in a confluence of factors: the allure of a cost-effective labor force, a regulatory environment with policies conducive to foreign investment, access to one of the largest consumer markets globally, and the strategic positioning of China as a geographical nexus between Asian and European markets. The availability of a skilled, educated, and well-resourced talent pool further solidified China's status as an attractive investment destination. According to the China Briefing, the ramifications of these strategic moves are evident, with a staggering 8,619 U.S. companies currently operating in China, and 1,992 U.S.-owned subsidiaries strategically positioned in the heart of this economic powerhouse[1]. As we dissect the intricacies of global business dynamics, these statistics underscore the profound impact of foreign policy decisions made decades ago have on the contemporary global corporate landscape.

1. Source: Gitnux. Data as of December 2023. https://gitnux.org/us-companies-in-china-statistics.

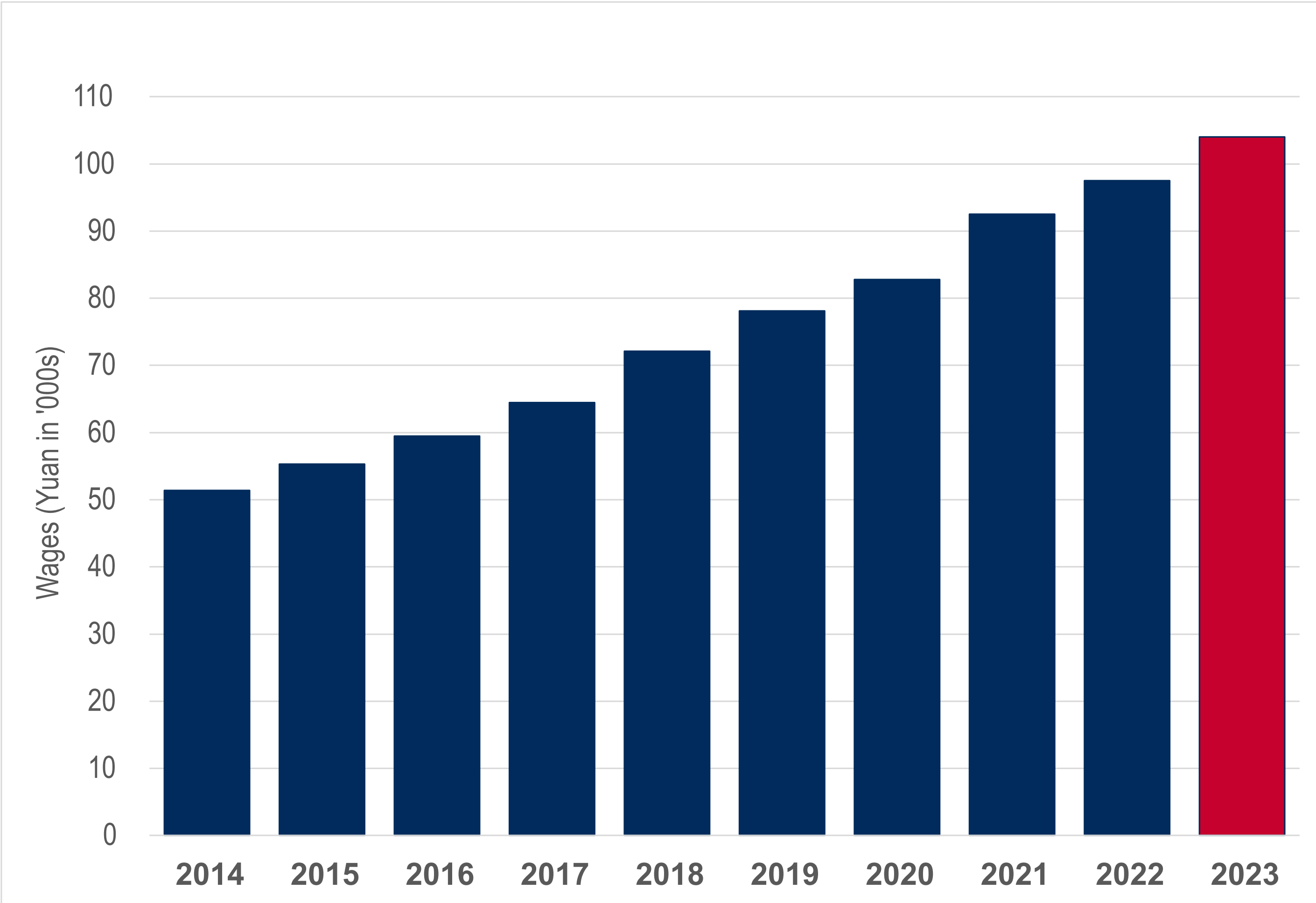
Changing Geopolitical Reality

China's waning influence in upholding a robust U.S. manufacturing base can be dissected through the lens of a nuanced interplay of critical variables. First and foremost, the Trump presidency etched a defining chapter, characterized by the amplification of geopolitical tensions with China. The implementation of tariffs and the crescendo of trade disputes injected a palpable aura of uncertainty into the bilateral economic dynamics. In response, U.S. manufacturers found themselves compelled to recalibrate their reliance on China as the epicenter of their production activities, meticulously reassessing the strategic underpinnings of maintaining an extensive manufacturing footprint within the Middle Kingdom.

Adding to the narrative is the seismic global perturbation brought about by the COVID-19 pandemic. The ensuing disruptions across the intricate tapestry of global supply chains laid bare the vulnerabilities inherent in overreliance on a singular manufacturing hub, notably China. Enterprises across the U.S. and West grappled with production halts, logistical delays, and material shortages, prompting a fundamental reevaluation of the current supply chain paradigms. This upheaval acted as a catalyst, propelling businesses towards a paradigm shift, favoring the diversification and regionalization of supply chains. This, in turn, ushered in a discernible trend of reconsidering the concentration of manufacturing activities in the once-unchallenged domain of China.

Simultaneously, a metamorphosis within China's cultural and economic landscape has exerted insistent pressure on U.S. manufacturing entities to contemplate strategic relocation. As China advances into a realm of heightened technological sophistication and burgeons into a higher-cost economic milieu, the erstwhile comparative advantage of low-cost labor begins to recede. The evolving economic dynamics, coupled with shifts in the regulatory environment, have elevated operational costs for foreign enterprises[2]. Concomitantly, China's refocused emphasis on domestic consumption and technological innovation has induced a strategic recalibration among U.S. manufacturing firms. This confluence of factors, coupled with an imperative need for proximity to markets, has fueled a burgeoning trend: the resurgence of reshoring and the strategic relocation of manufacturing operations back to the U.S. or adjacent regions, such as the dynamic landscape of Mexico. In essence, this narrative unfolds as a symphony of strategic adaptations, charting a course through the intricate maze of global manufacturing dynamics.

Increasing Cost of Manufacturing in China



Source: Tradingeconomics.

2. Source: Tradingeconomics. Data as of January 2022. https://tradingeconomics.com/china/labour-costs.

China's Economic Plateau

The fourth quarter of 2023 unfurled a sobering revelation: a precipitous decline in anticipated post-pandemic growth. As we delve into the intricacies of the first two quarters of the current year, the tableau remains one of stagnation, punctuated by four pivotal indicators.

Firstly, the beacon of local government investment, once ablaze with promise, now flickers with uncertainty. Real estate, a stalwart of Chinese economic prowess, finds itself mired in a quagmire of diminishing returns and incomplete endeavors. Concurrently, the once robust engine of loan growth has sputtered, experiencing a severe reduction. Lastly, the specter of a record-low GDP deflator, akin to a silent harbinger, casts a pall over economic prospects[3].

China's trajectory has long been charted by a fervent pace of urbanization, coupled with an emboldened stance toward local government investment. The bedrock of this strategy rested upon the edifice of debt, buoyed by transactions with developers. Yet, this symbiotic relationship has birthed a burgeoning debt burden, teetering perilously close to the precipice of default.The government's exertion of pressure upon developers to liquidate their debts has merely compounded the conundrum, precipitating a downward spiral of financial instability. The reverberations of this turmoil extend beyond the realm of economics, permeating the very fabric of Chinese society. According to the insights of the Research Institute of Economy, Trade, and Industry (RIETI)[4], the trajectory of China's debt-fueled economy has catalyzed the bursting of the housing bubble. This seismic event has reverberated through the housing market, plunging it into a state of stagnation.

For decades, China's economic engine has been fueled by a reliance on robust domestic investments in real estate and infrastructure. However, as we stand on the precipice of the present, these investments yield increasingly meager returns. The immutable truth emerges: the once invincible pillars of China's economic ascent now stand vulnerable, beckoning a reevaluation of strategy and vision.

3. Source: Bloomberg. https://www.bloomberg.com/news/articles/2024-01-12/china-s-credit-expansion-slows-in-december-on-lackluster-demand.

4. Source: Chi Hung KWAN. Collapse of the housing bubble in China - A drag on economic recovery. Research Institute of Economy, Trade and Industry (REITI). November 2023. .

Steady Growth Outlook for the Manufacturing in the United States

In dissecting the economic data and the consensus view across the street, Vanguard asserts a conviction in the United States' trajectory toward a modest 2% GDP growth in the impending fiscal epoch.

Our enthusiasm zeroes in on the foreseen vitality within the manufacturing sphere, with a laser focus on the indomitable terrain of Texas. Our proprietary blend of research and foresight indicates that the Lone Star State is destined to assume a pivotal role in fortifying the broader economic panorama, wielding an approximate 7% influence on the annual GDP growth[5].

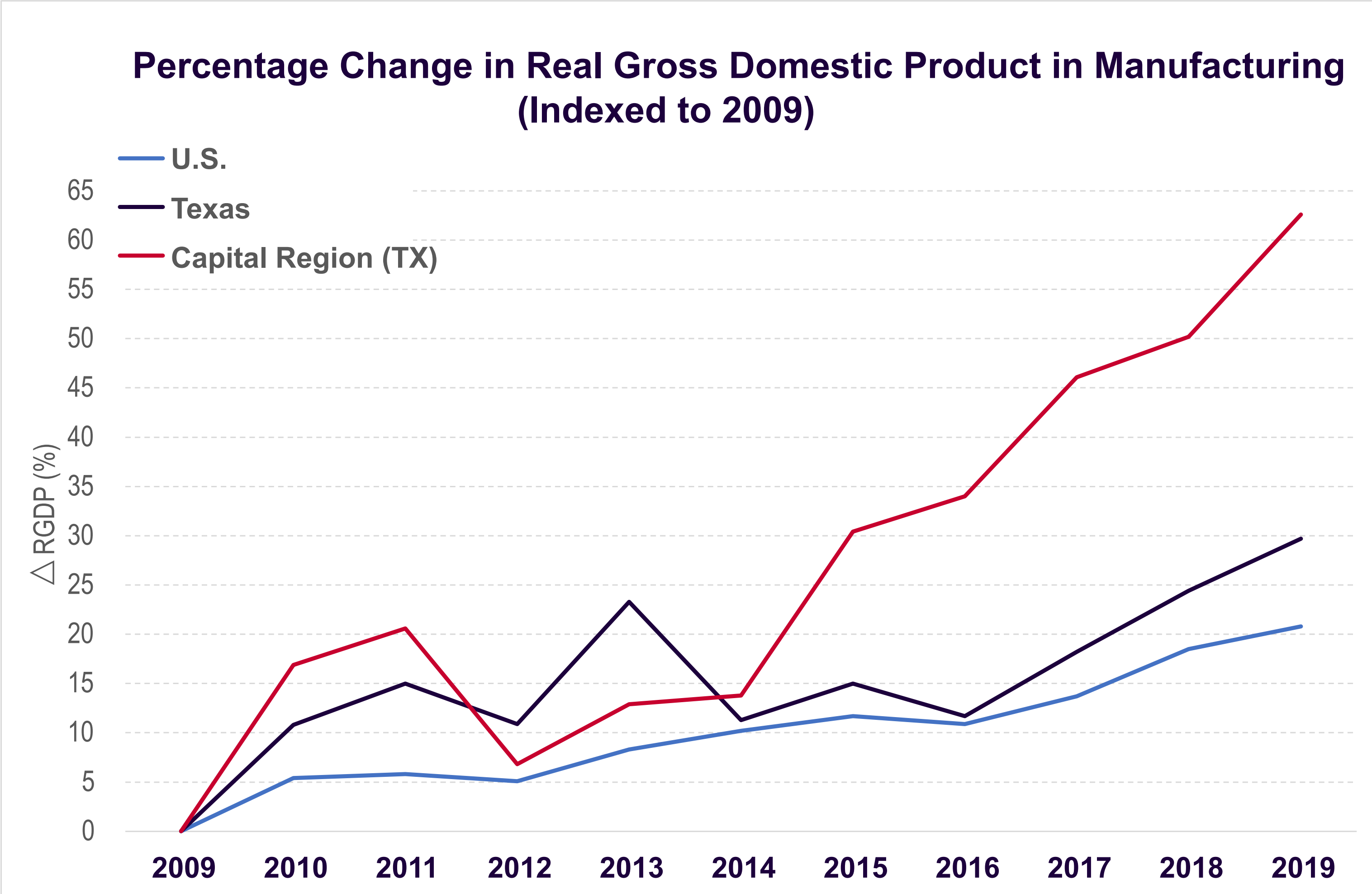
Texas, a stalwart known for its economic fortitude and multifaceted industrial bedrock, is poised to be the vanguard propelling the nation's economic swell. Factors such as a congenial business friendly-policy making, robust infrastructure, and a skilled labor pool contribute to the Lone Star State's allure for manufacturing ventures. The strategic geographic locale further fuels the economic engine, facilitating seamless logistics and trade, thereby magnifying its resonance in the national fiscal symphony.

At the heart of Texas' envisioned contribution lies the manufacturing sector, anticipated to be the primary thruster. Our prognosis foresees a sustained surge in this realm, propelled by the juggernaut of technological strides, augmented demand for domestically crafted commodities, and a regulatory landscape casting a benevolent gaze. Texas, already a titan in manufacturing prowess, is set to broaden its dominion across sectors spanning electronics, aerospace, and energy, engendering a magnetic pull for enterprises seeking fertile grounds.

5. Texas Comptroller of the Public Accounts. Data as of December 2019. https://comptroller.texas.gov/economy/economic-data/manufacturing/2020/.

Texas has etched its saga of adaptability amidst daunting market dynamics, fostering an ethos of innovation and competitiveness. This malleability, coupled with a proactive stance on infrastructure evolution and capital infusion, designates the state as a North Star for manufacturers seeking a haven of stability and exponential growth potential.

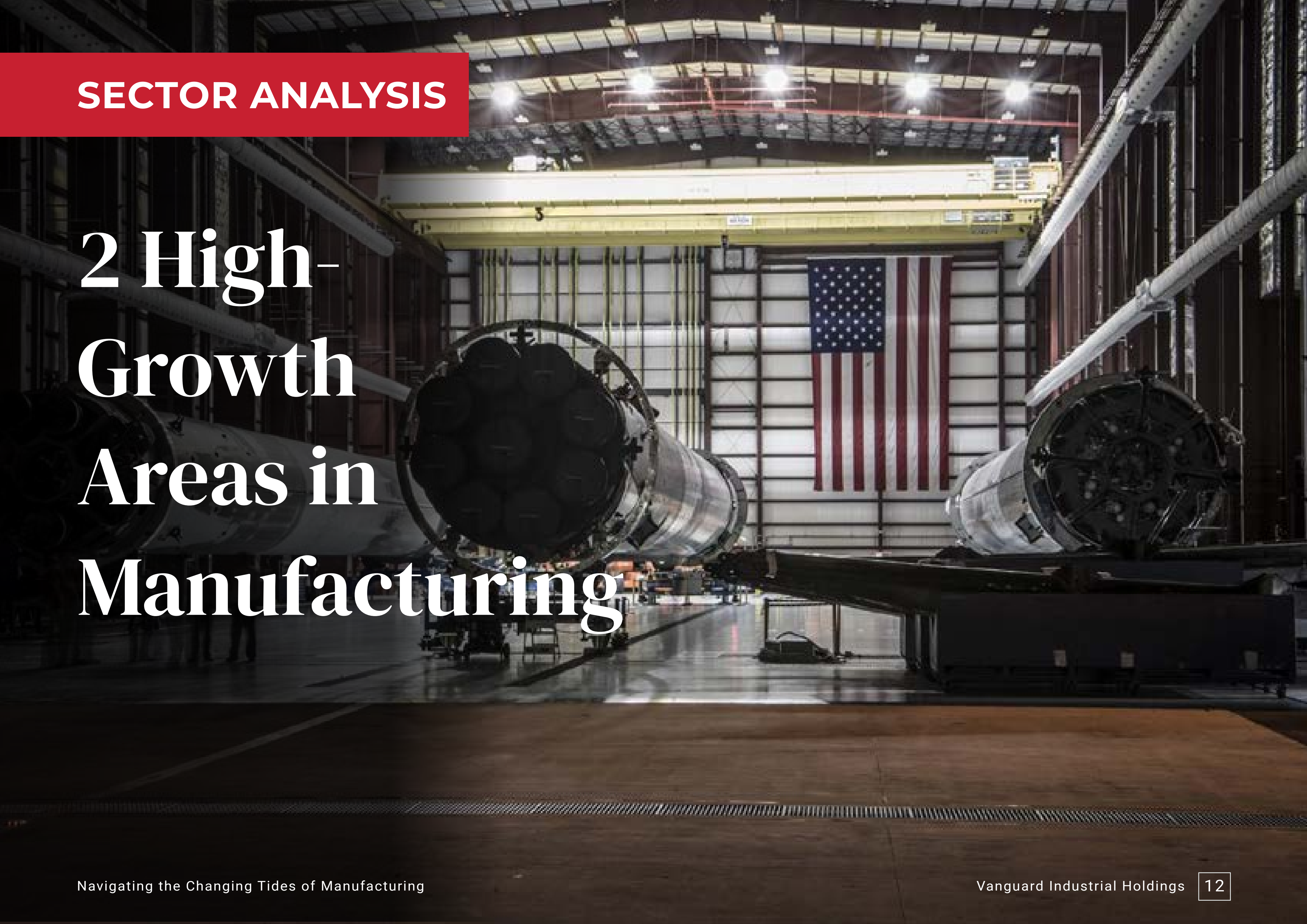
Acknowledging the broader economic canvas and the storm clouds that may gather, Vanguard Industrial Holdings—with an optimism reminiscent of a bull in a china shop—stands firm on the outlook for the U.S. economy. Our confidence is underpinned by the anticipated tenacity and expansion within the manufacturing sector, especially within the dynamic tapestry of Texas.



Source: Texas Comptroller of the Public Accounts.

SECTOR ANALYSIS

2 High-Growth Areas in Manufacturing



The aerospace and defense industry stands at a critical juncture, underscored by the tumultuous global landscape. Against the backdrop of escalating geopolitical tensions and emerging security threats, governments worldwide are increasingly prioritizing national defense and security measures. This strategic emphasis is palpable in the expanding budgets earmarked for defense and aerospace endeavors, signaling a clear trajectory of growth and advancement in these indispensable sectors.

Of particular interest is the pivotal role of the United States Congress in shaping federal spending on defense and aerospace initiatives. As the primary legislative body responsible for budgetary allocations, the decisions made by Congress wield significant influence over the direction and magnitude of financial resources dedicated to national security endeavors. The intricate interplay of political dynamics, strategic imperatives, and fiscal considerations within the halls of Congress promises to be a compelling determinant in the allocation of resources to bolster defense and aerospace capabilities.

Notably, for the fiscal year 2024, the Federal Government has projected a substantial expenditure equivalent to 14% of its Gross Domestic Product (GDP) on national defense, amounting to around a staggering $363 billion. This ambitious allocation underscores the unwavering commitment to fortifying the nation's defense infrastructure and technological prowess, ensuring readiness to confront evolving threats, and safeguarding the interests of the populace.

Aerospace and Defense

- The global aerospace and defense market size was worth around $750 billion in 2022.
- It is predicted to grow around $1,388 billion by 2030 with a compound annual growth rate (CAGR) of roughly 8.2% between 2023 and 2030.

Source: Zion Market Research. Aerospace and Defense Market
https://www.zionmarketresearch.com/report/aerospace-and-defense-market.

Robotics Technology

The global market for robotics technology was valued at around USD 82.42 billion in 2023 and is expected to reach approximately USD 283.19 billion in 2032, growing at a CAGR of slightly above 14% between 2023 and 2032.

Industrial robots capture 52% of the overall market which is a type of mechanical machine that automatically performs production-related tasks in the industry. Industrial robots are reprogrammable, and they can be reprogrammed many times depending on industrial needs.

Source: Precedence Research. Robotics Technology Market
https://www.precedenceresearch.com/robotics-technology-market.

UNVEILING THE HORIZON

Vanguard Industrial Holdings Embracing Global Shifts

In the dynamic landscape of global commerce, the redirection of manufacturing away from China stands as a compelling catalyst for fortifying the prowess of the United States economy. This strategic recalibration has sparked legislative endeavors that resonate with the fundamental principle of seizing and maximizing the manifold opportunities arising from this seismic realignment.

At the core of this legislative narrative lies a concerted effort to sculpt a more propitious business environment through astute tax incentives and judicious regulatory reforms. Picture a canvas where the government, with a stroke of policy acumen, endeavors to curtail corporate tax burdens, untangle regulatory complexities, and extend financial inducements to corporations contemplating the relocation of their manufacturing bastions to the heart of the United States. These strategic maneuvers are artfully crafted to magnetize capital, kindle the flames of job creation, and orchestrate an ascent in the crescendo of overall economic prosperity[6].

In tandem, the legislative saga unfolds with a focus on fortifying trade relationships and forging strategic partnerships with nations seeking alternatives to the manufacturing juggernaut of China. Visualize the diplomatic chessboard where bilateral and multilateral trade accords materialize, seamlessly choreographed to smoothen the transition for businesses and lay the groundwork for collaborative endeavors. This isn't merely an economic tango. Indeed, it is a symphony fostering resilient ties and weaving the fabric of a diversified, globally resilient supply chain.

6. Source: Cushman & Wakefield. U. S. Manufacturing resurgence. Data as of June 2023. https://www.cushmanwakefield.com/en/united-states/insights/exploring-the-challenges-and-factors-driving-onshoring-and-nearshoring.

Strategic Positioning to Adapt to Global Transformations

Vanguard Industrial Holdings is methodically positioning itself to capitalize on the substantial opportunities emanating from the ongoing transformations in the global supply chain. In sync with our philosophy of being proactive rather than reactive, the company is not a bystander but an engaged participant, meticulously aligning its portfolio with the overarching macroeconomic trends that validate our strategic outlook.

At the core of Vanguard Industrial Holding's strategy lies a sagacious anticipation of the evolving dynamics in global manufacturing and supply chain patterns. We recognize the significance of the manufacturing exodus, particularly from established hubs like China. With a discerning eye, we are identifying emerging manufacturing centers and sectors on the cusp of growth. This deliberate approach allows us not only to diversify our holdings but also to tap into new revenue streams harmonizing with the shifting contours of the global industrial landscape.

A linchpin in our strategic maneuvering is the commitment to align our portfolio with macroeconomic trends. We understand that true success lies not just in adapting to change but in anticipating and riding the undulating waves of broader economic shifts. By incorporating a diversified range of portfolio companies aligned with prevailing macroeconomic trends, Vanguard Industrial Holding ensures resilience and sustained growth even in the face of market fluctuations.

Furthermore, our keen attunement to sectors integral to the evolving global supply chain amplifies our strategic positioning. We seek portfolio additions that exhibit robustness and compatibility with macroeconomic forces, whether in technological advancements, geopolitical considerations, or the dynamic preferences of consumers. This astute approach positions us strategically in industries poised for growth and long-term sustainability.

Our commitment to adding portfolio companies aligned with macroeconomic trends goes beyond mere financial gains. We aspire to contribute to and shape the narrative of emerging industrial paradigms. By fostering a portfolio that mirrors the trajectory of macroeconomic trends, Vanguard Industrial Holding not only enhances its own growth prospects but assumes a pivotal role in steering industries toward innovative and resilient models.

Beyond Reaction: Securing Stability in Unpredictable Times

Vanguard Industrial Holdings transcends the conventional mold of an investment firm. It is an avant-garde nucleus that surges beyond the horizon of financial portfolios, positioning itself as a visionary hub. Our purpose extends beyond immediate gains—we are architects of strategies that anticipate and navigate the tides of global trends destined to shape the manufacturing landscape for the next three to four decades.

Our approach is simple, yet it exudes a profound richness in its impact. At the core of our *modus operandi* is the commitment to adding substantial value to the companies within our portfolio. This commitment is manifested through a multifaceted process that encompasses talent acquisition, research and development initiatives, sales enablement strategies, and a methodological embrace of the famed Toyota Way.

Talent Acquisition

Talent acquisition, for us, is not a perfunctory process but a meticulous curation of individuals who embody innovation, expertise, and a passion for pushing boundaries. We recognize that the true strength of any enterprise lies in its human capital, and as such, we place a premium on assembling teams that not only meet the demands of today's challenges but are also poised to navigate the complex landscape of the future.

Research and Development

Research and development form the bedrock of our forward-thinking philosophy. We invest not just in products or services but in the very ideas that germinate innovation. Our teams delve into emerging technologies, market dynamics, and societal shifts to ensure our portfolio companies are not just keeping pace with change but are at the forefront of driving it.

Sales Enablement

Sales enablement is not just about moving units; it's about crafting narratives that resonate with the evolving needs and desires of the market. We empower our portfolio companies to be agile and responsive, understanding that in an era of rapid change, the ability to connect with consumers on a meaningful level is paramount.

The Toyota Way

The Toyota Way, a philosophy rooted in continuous improvement and respect for people, serves as a guiding principle in our operational framework. We infuse the spirit of efficiency, lean thinking, and adaptability into the DNA of our portfolio companies, fostering a culture where excellence is not an end goal but a perpetual journey.

Our Strategic Vision

Vanguard Industrial Holdings prudently harnesses strategic and synergistic acquisitions as integral components of its value-centric strategy. These acquisitions serve as catalysts for bolstering market presence, broadening the scope of product and service offerings, and optimizing operational efficacy throughout the conglomerate's subsidiary network under the holding company (HoldCo) umbrella.

In our meticulous evaluation process, strategic acquisitions are scrutinized through the lens of Vanguard's overarching vision and objectives. These endeavors transcend mere expansion for expansion's sake, focusing instead on how potential acquisitions can seamlessly integrate into our existing subsidiary portfolio. We meticulously assess variables such as market dynamics, technological alignment, cultural congruence, and the potential for symbiotic relationships.

Our synergistic-focused acquisitions represent a pivotal avenue for Vanguard's advancement, facilitating the amalgamation of resources, expertise, and competencies across disparate subsidiaries within the HoldCo structure. By discerning areas of convergence or complementary strengths among subsidiaries, we unlock new and interesting pathways for collaboration and innovation. For instance, the strategic amalgamation of a manufacturing-focused subsidiary with a robust distribution network enables amplified market penetration and efficiency enhancements, engendering sustainable value creation.

Ultimately, Vanguard Industrial Holdings builds its portfolio with an eye towards ascent through value creation and synergy. By rigorously selecting the right companies to acquire, we become a whole greater than the sum of its parts, producing enduring value as we act to create and secure stability in chaotic and unprecedented times.

VANGUARD
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Launch With Us

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General Disclosures

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