

May 21,
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Business Development Strategies for Our Recovery

KAED Spring Conference

Presented by:



Your Speakers:



Steven Jast
President & CEO
ROI / Gazelle.ai



Dr. Nadine Jeserich
VP, Analytics
ROI / Gazelle.ai

Are we there yet?

US Economic Recovery and Business Dynamism

Steven Jast



Globally Interconnected



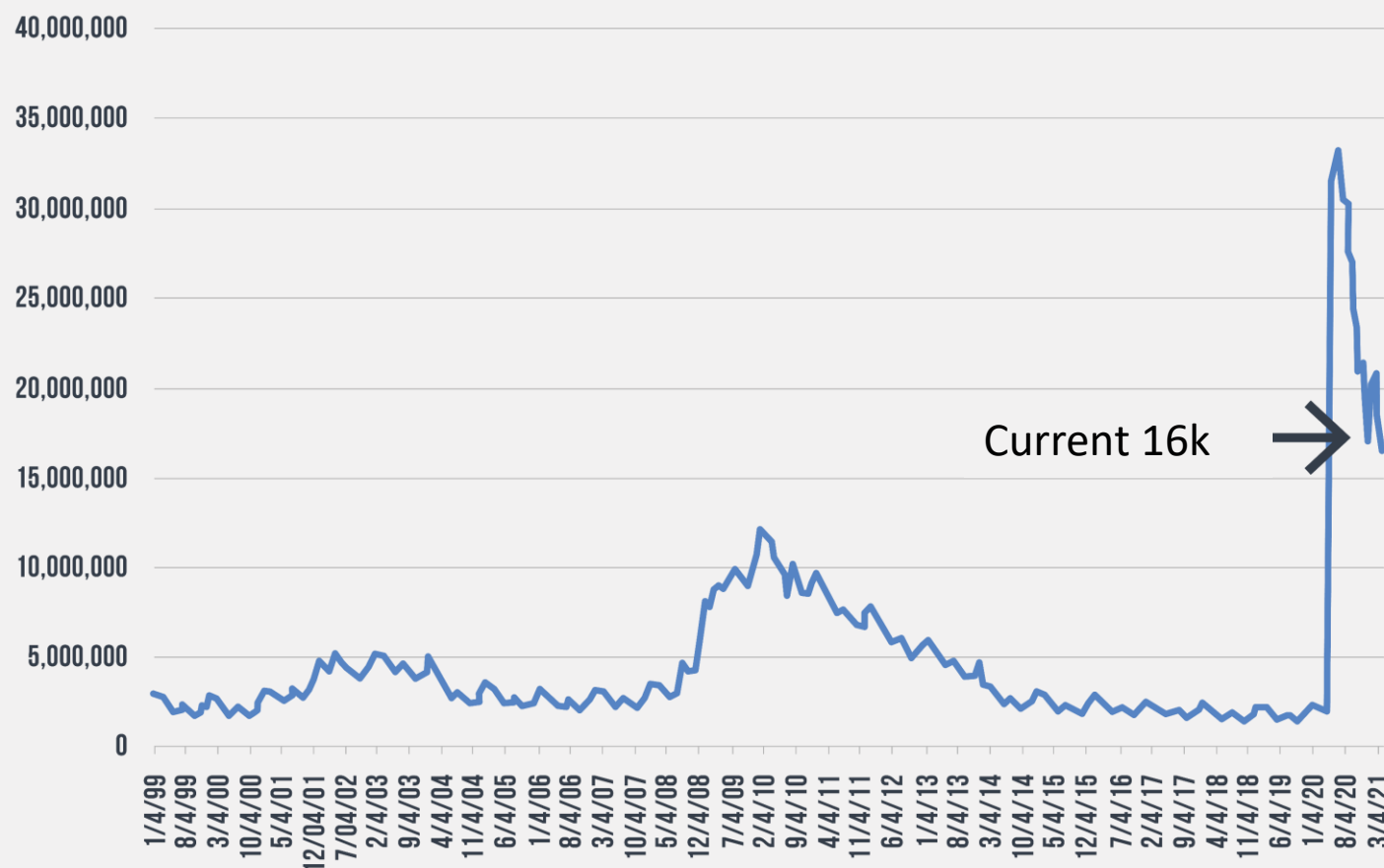
Foreign direct investment, just like trade has had to deal with disruptions of the pandemic.

With a strong US reliance on the global economy, how far along are foreign industries in their recovery?

Is their current trade levels sufficient to supply both inputs and demands needed to restart our economy?

US Unemployment Claims – All Programs

ALL PROGRAMS COUNTINUING CLAIMS (1986-CURRENT, NON-SEASONALLY ADJUSTED)
COUNTS INCLUDE REGULAR, UCFE, UCX, TRADE, DUA, STC, EUC08, TEUC, EUC, EB AND STATE AB CLAIMS

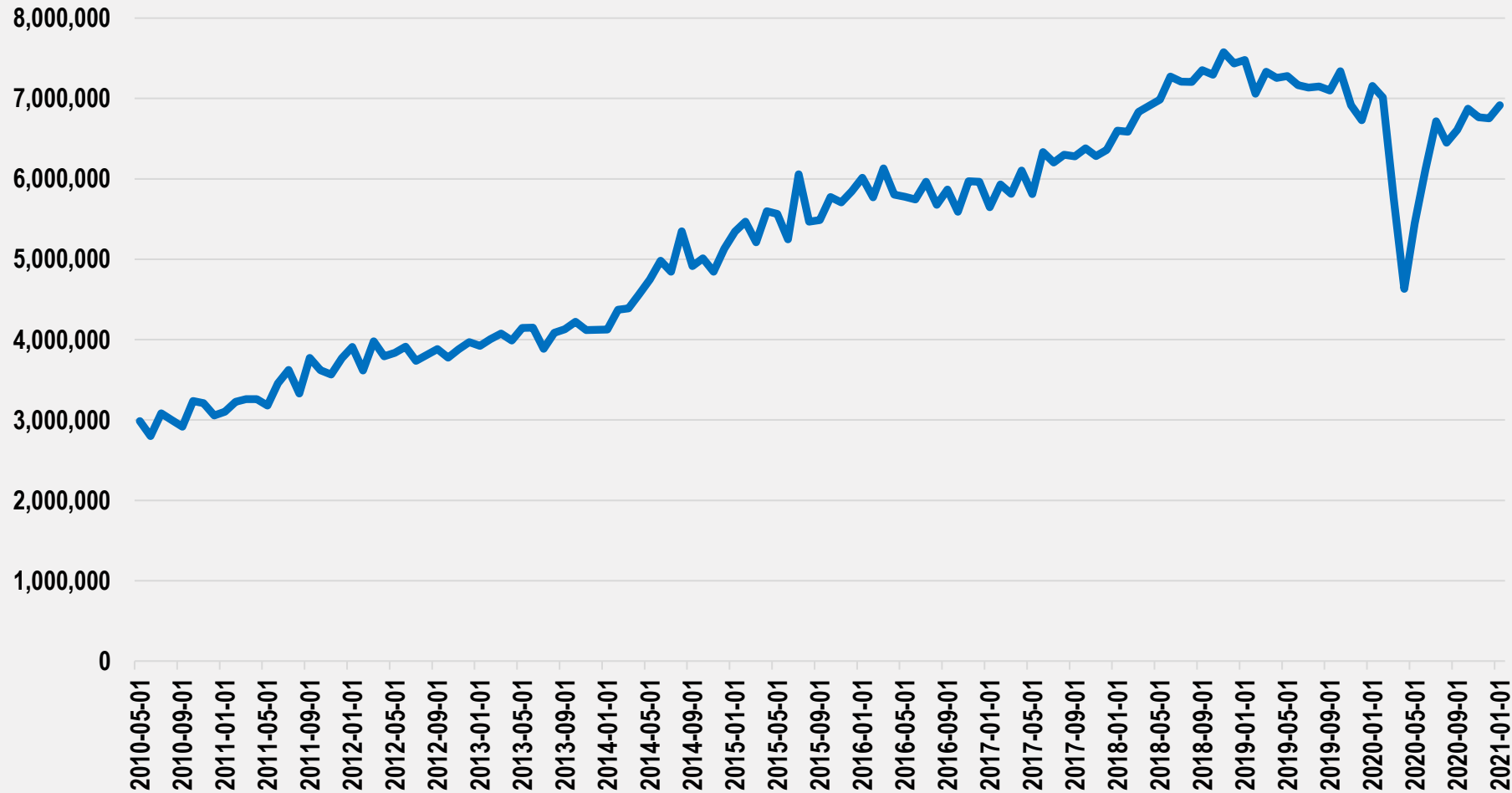


YTD downward trend in job creation

8 million fewer nonfarm jobs relative to prepandemic levels (Feb. 2020)

1.6 million workers have dropped out of the labor force – **disproportionately women**

US Unfilled Job Openings Might Hamper Recover



Source: OECD

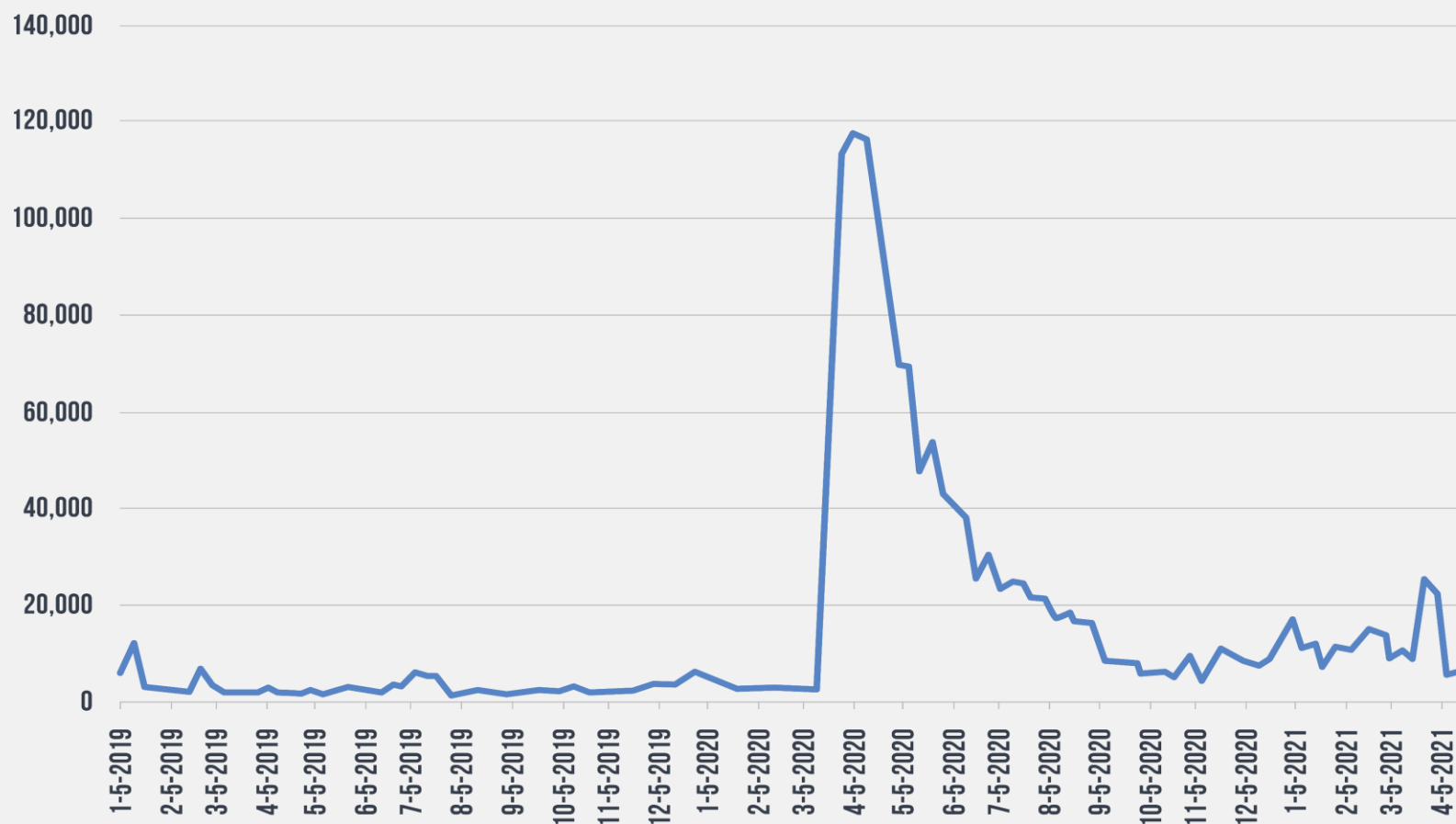
What We Know:

**The Kentucky economy is
estimated to grow by over 6% in
2021**

**Growth in GSP could amount to
\$1.9 billion for the State in 2021**

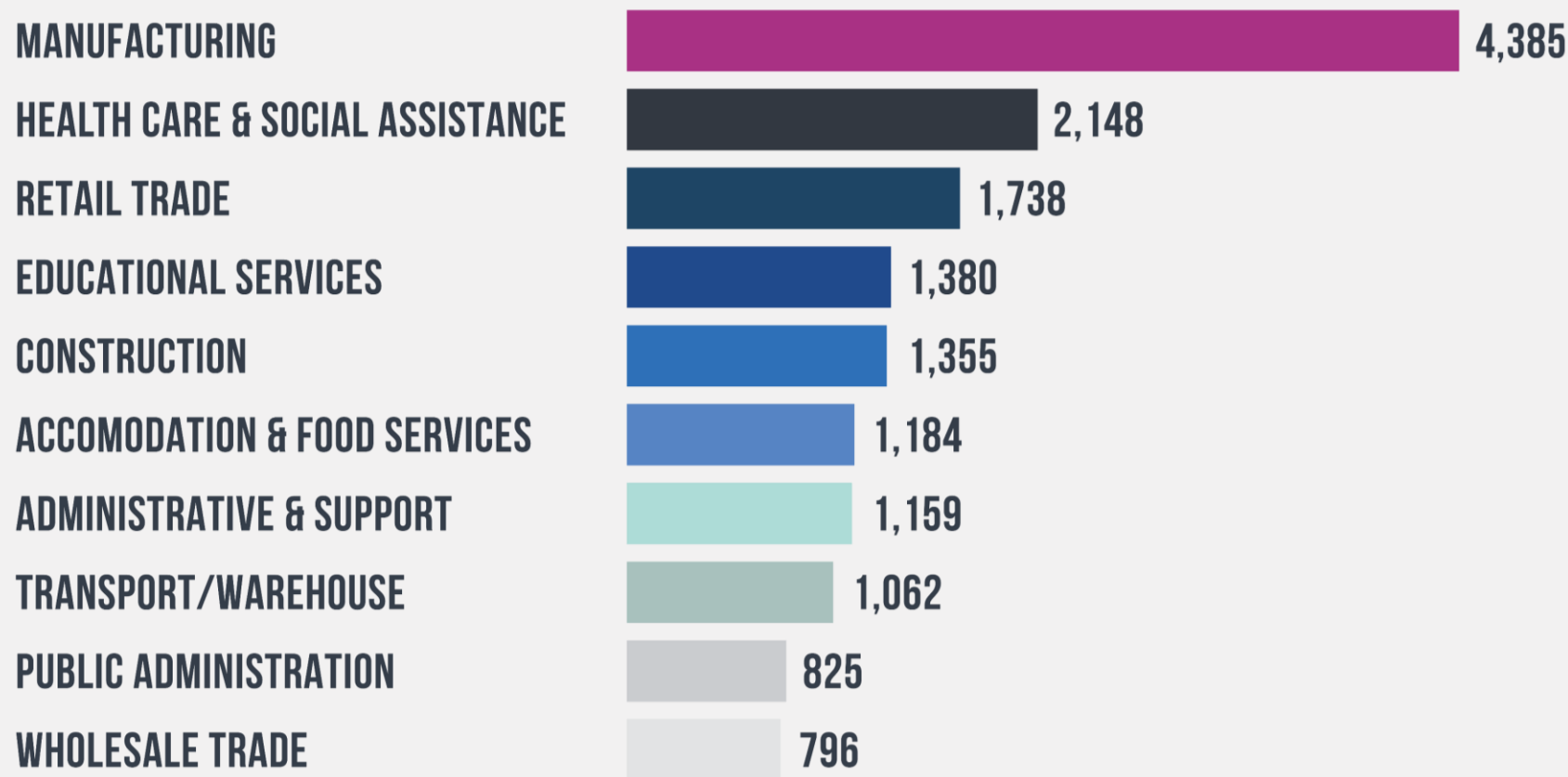
**The unemployment rate in
Kentucky in March 2021
was 5%, below the
national rate of 6.2%**

Kentucky Initial Jobless Claims as of 5/1/21



Source: DOL

Kentucky Initial UI Claims by Industry (03/21/2021)



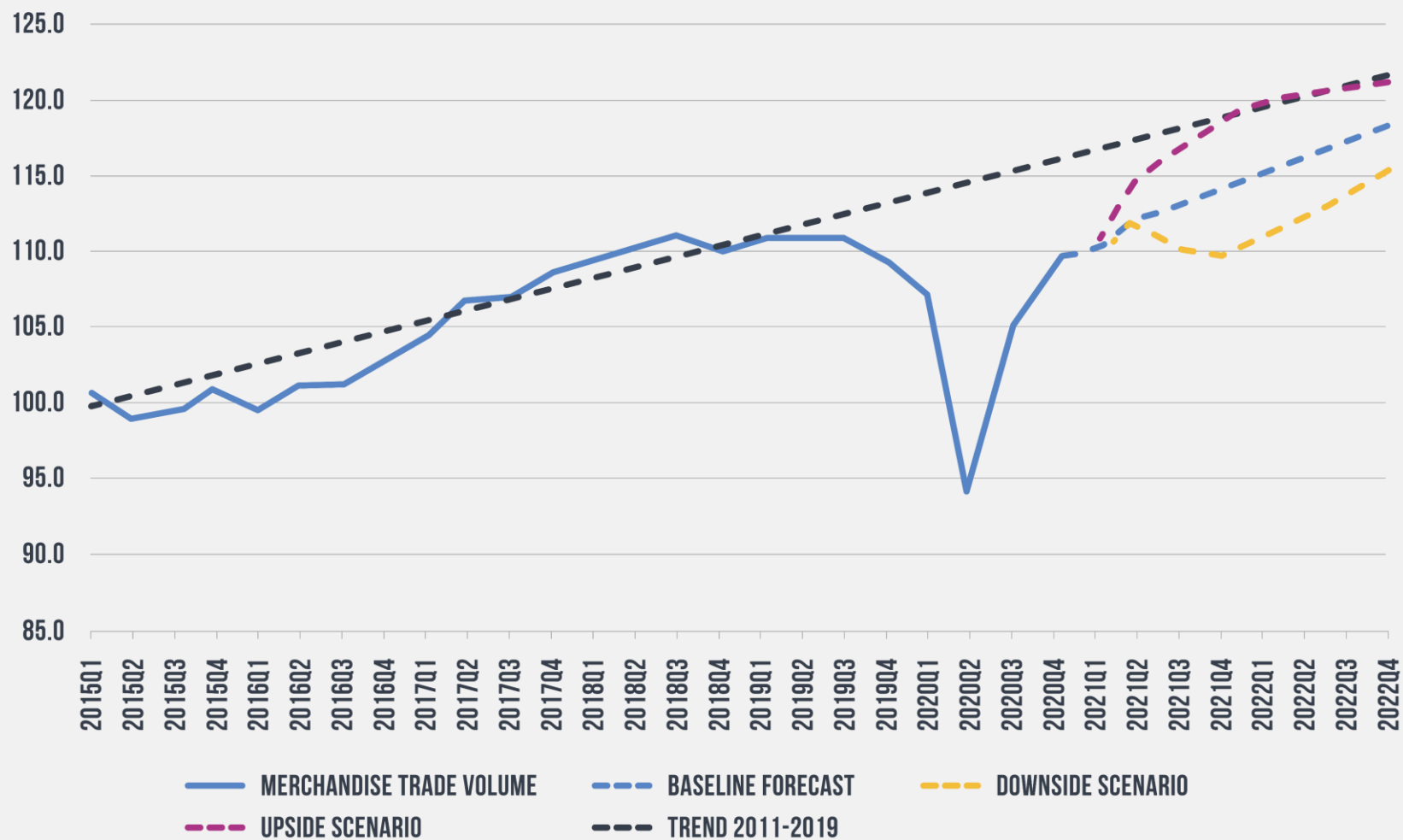
Note: 6,713 initial claims did not have an instrustry listed.

Source: KYstats

**Worldwide trade will
plummet 11% this year**

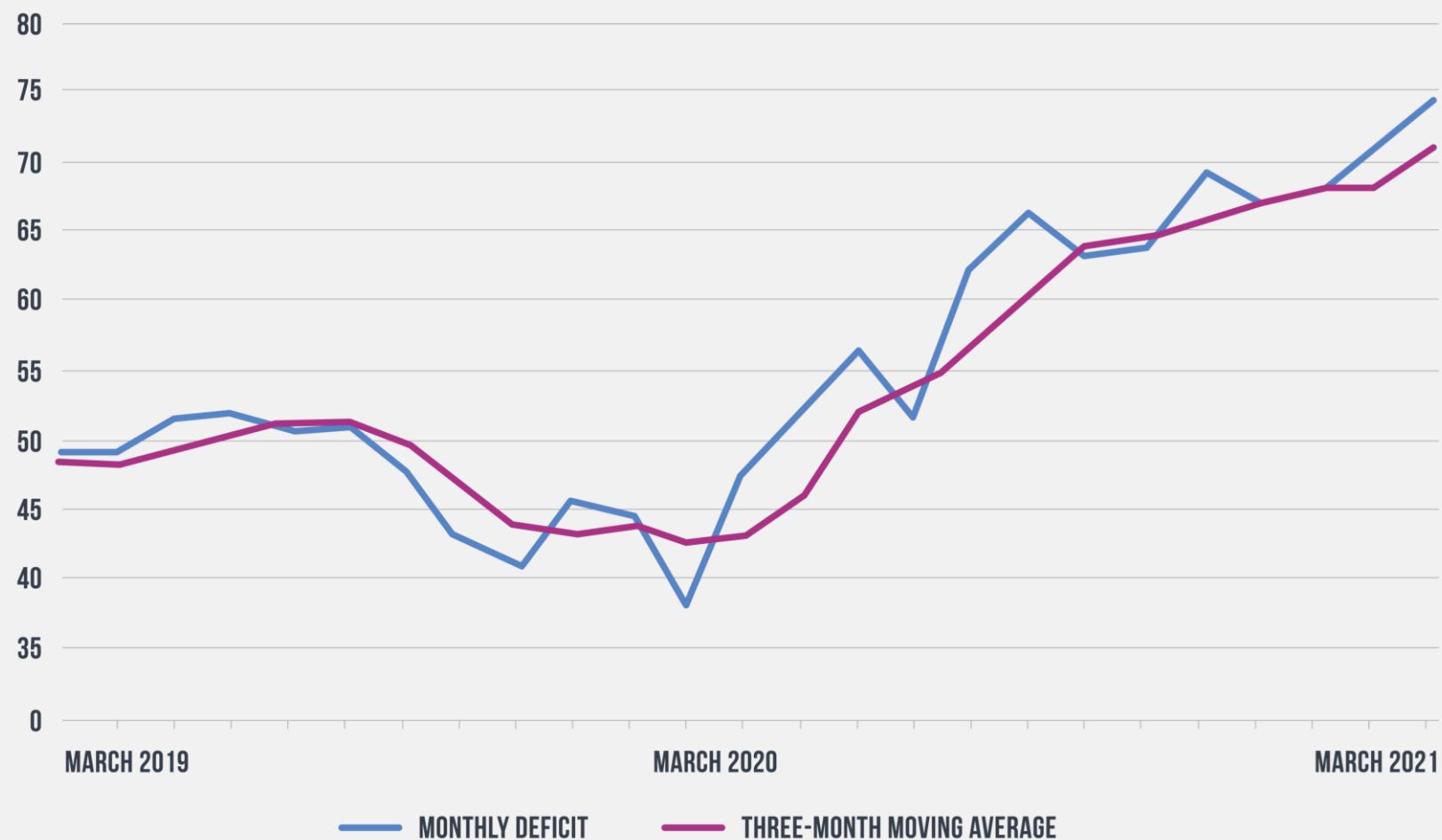
**Kentucky exports dropped
by 25% in 2020 vs 2019**

Goods Trade Outlook



Source: WTO

US Goods and Services Trade Deficit (Seasonally Adjusted)



Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau, U.S. International Trade in Goods and Services May 4, 2021

Steep short-term decline in FDI – 42% worldwide in 2020

COVID-19 Impact on Global FDI

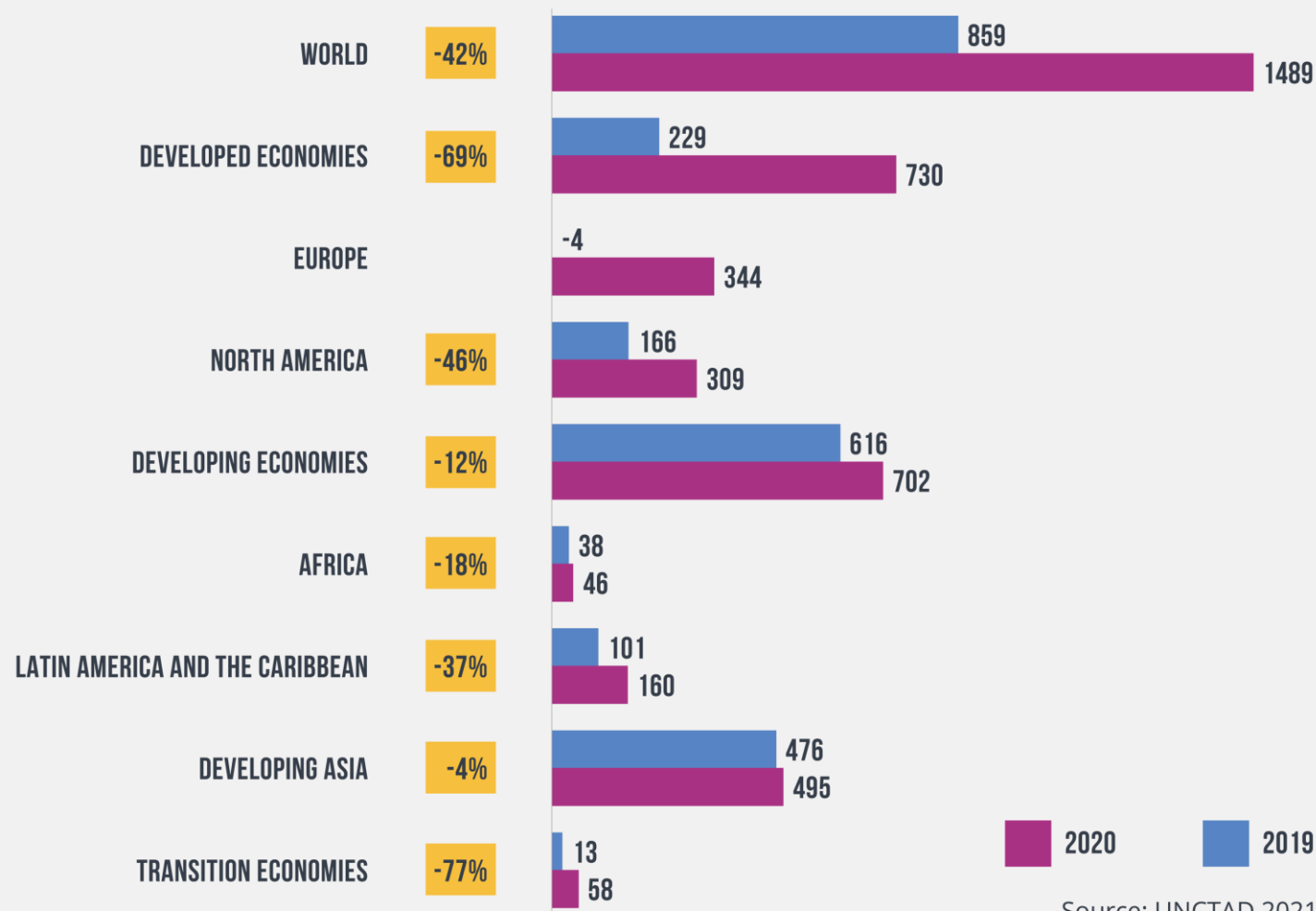
Top 5,000 MNEs which account for lion's share of FDI: downward revisions of 2020 earnings estimated at 30% due to COVID-19. Hardest hit:

**Downward pressure
on FDI could be
-40% globally
during 2020
another 5-10%
down in 2021**



Source: UNCTAD, World Investment Report 2020; Earnings as of May 11th.

Global FDI Inflows 2019-2020 by Region



Source: UNCTAD 2021

Supply chain strength

March 2020 supply chain disruptions were being reported in

9%

North America

*(9% for U.S. supply chains,
6% for supply chains
elsewhere in North America)*

17%

Japan & Korea

of respondents each

24%

Europe

of respondents

38%

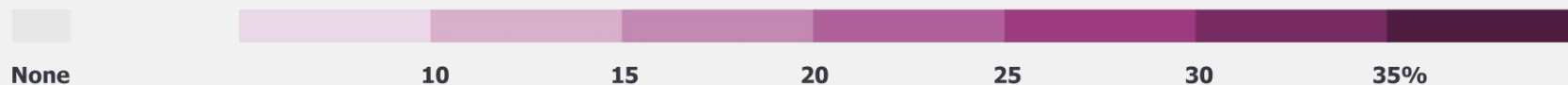
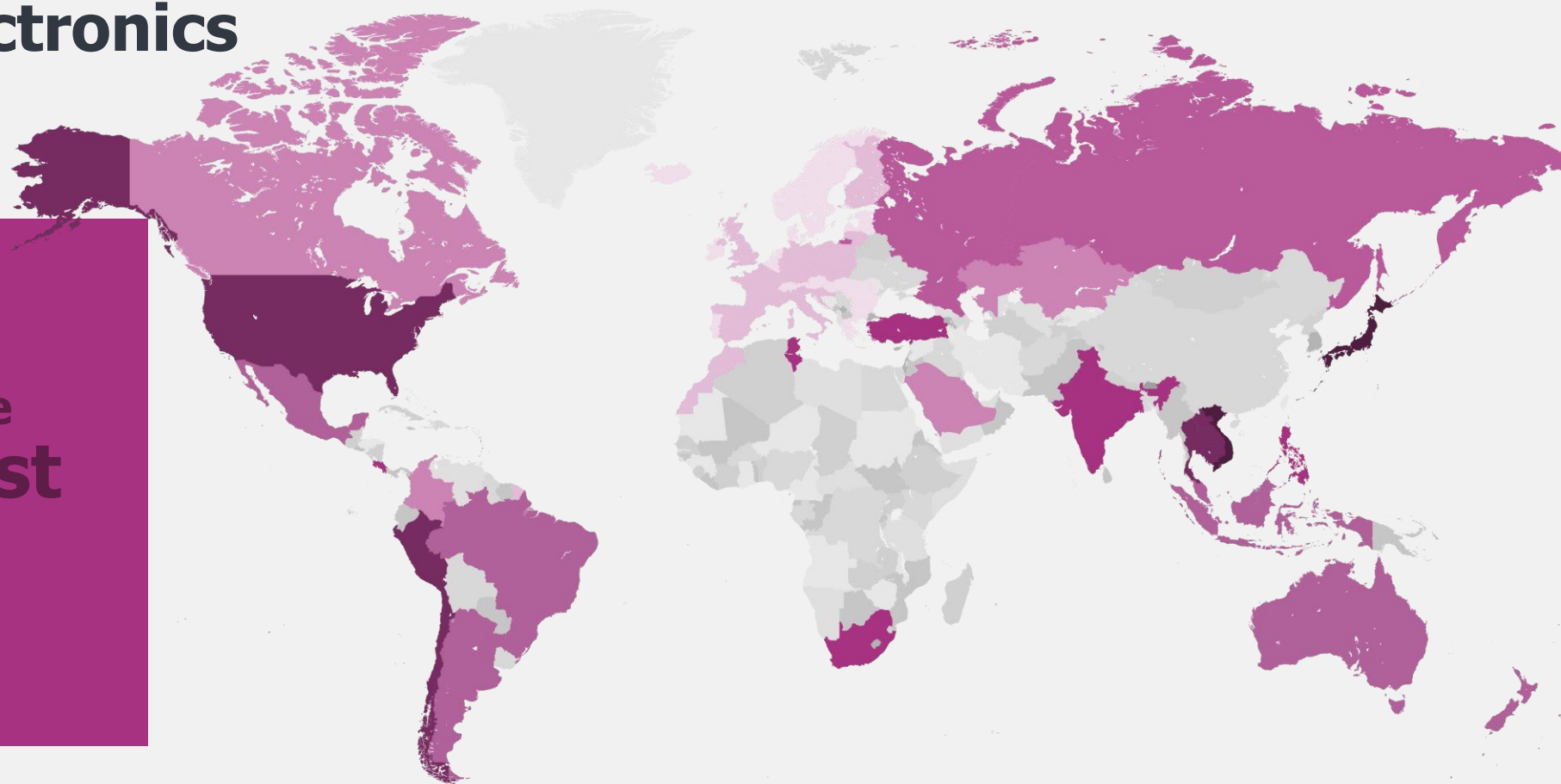
China

of respondents

Source: Institute for Supply Management

And Not Just Electronics

Dependence on Chinese intermediate inputs in the US is one of the **highest** in the world.



Source: OECD TiVA, Bloomberg Economics

Trends for 2021

POLICY TRENDS

Buy American

- Tighter rules for federal contracting

Made in America Tax Plan

- Increase the corporate tax rate to 28% (from 21%)
- Introduce a global minimum tax of 15% of book income
- Reduce profit shifting to foreign subsidiaries and related corporations
- Increase domestic enforcement of existing tax rules
- Creating a stronger corporate minimum tax regime by making substantial changes to the GILTI (Global Intangible Low-Taxed Income) regime
- Eliminating the FDII (Foreign Derived Intangible Income Regime)
- Repeal and replace the Base Erosion and Anti-Abuse Tax (BEAT) with SHIELD (Stopping Harmful Inversions and Ending Low-tax Developments)
- Increasing Internal Revenue Service enforcement of existing tax code violations
- Eliminating tax incentives for fossil fuels and increasing tax incentives for greener energy

BUSINESS TRENDS

Regionalization

- Retreat from globalization?
- Powerful regional blocs
- FDI screening

War for talent

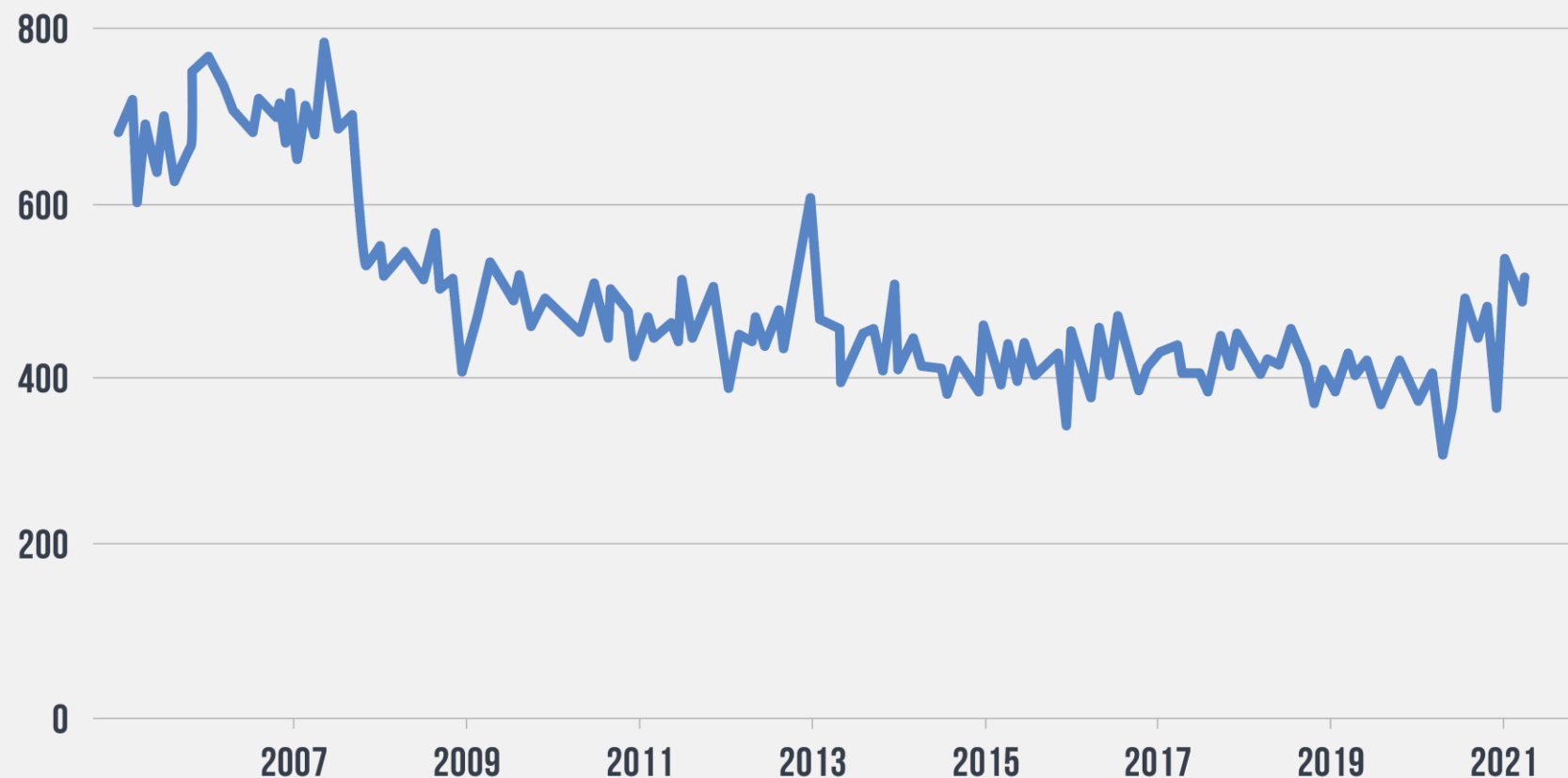
- Aging and retiring workforce
- Labor shortages

Entrepreneurship

- Over half the companies on the Fortune 500 were founded during a recession or bear market

Kentucky's Recovery

BUSINESS APPLICATIONS WITH PLANNED WAGES - KENTUCKY



Source: US Census Bureau

Global connections and international trends

Dr. Nadine Jeserich



Intro

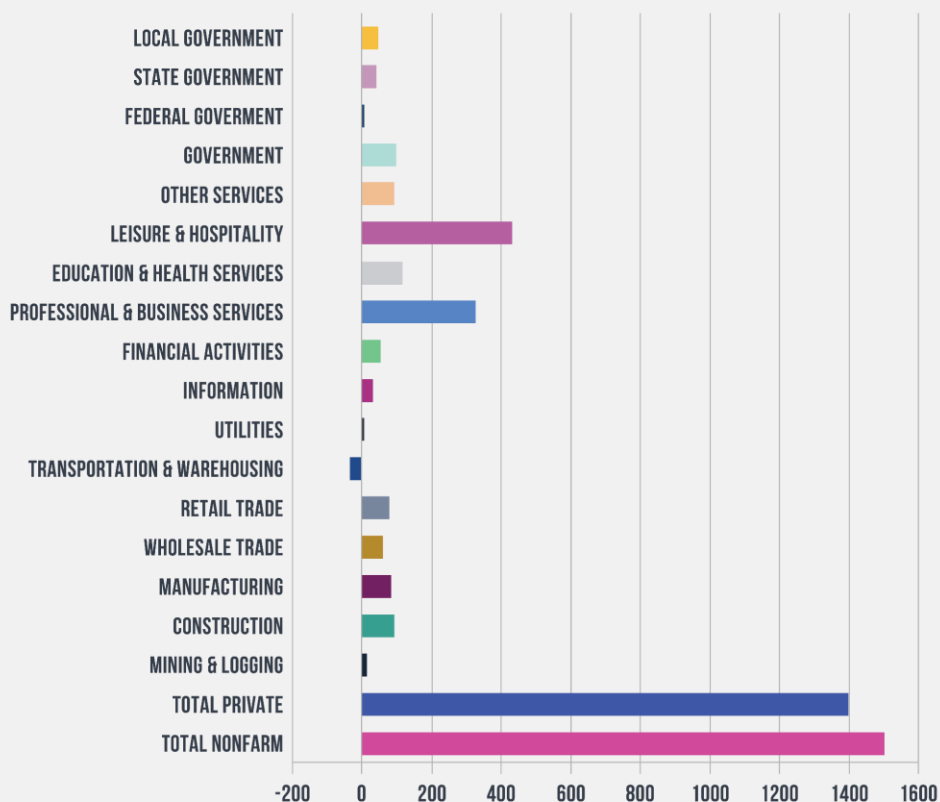
Tracking growth industries, those that were more resilient to the crisis, and those that accelerated by the crisis.

How are trading partners are doing, **how is trade and FDI developing?**

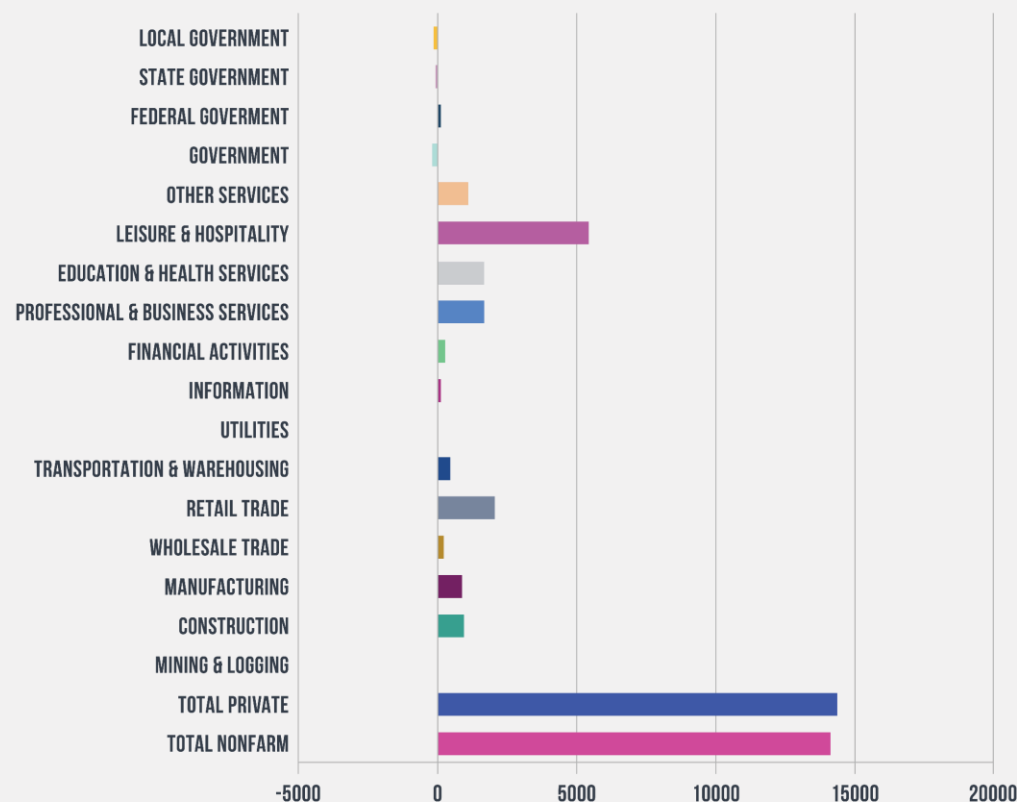
What will create opportunities beyond 2020?

2021 employment by sector – at last some growth

EMPLOYMENT CHANGE IN 6 MONTHS BY INDUSTRY, APRIL 2021



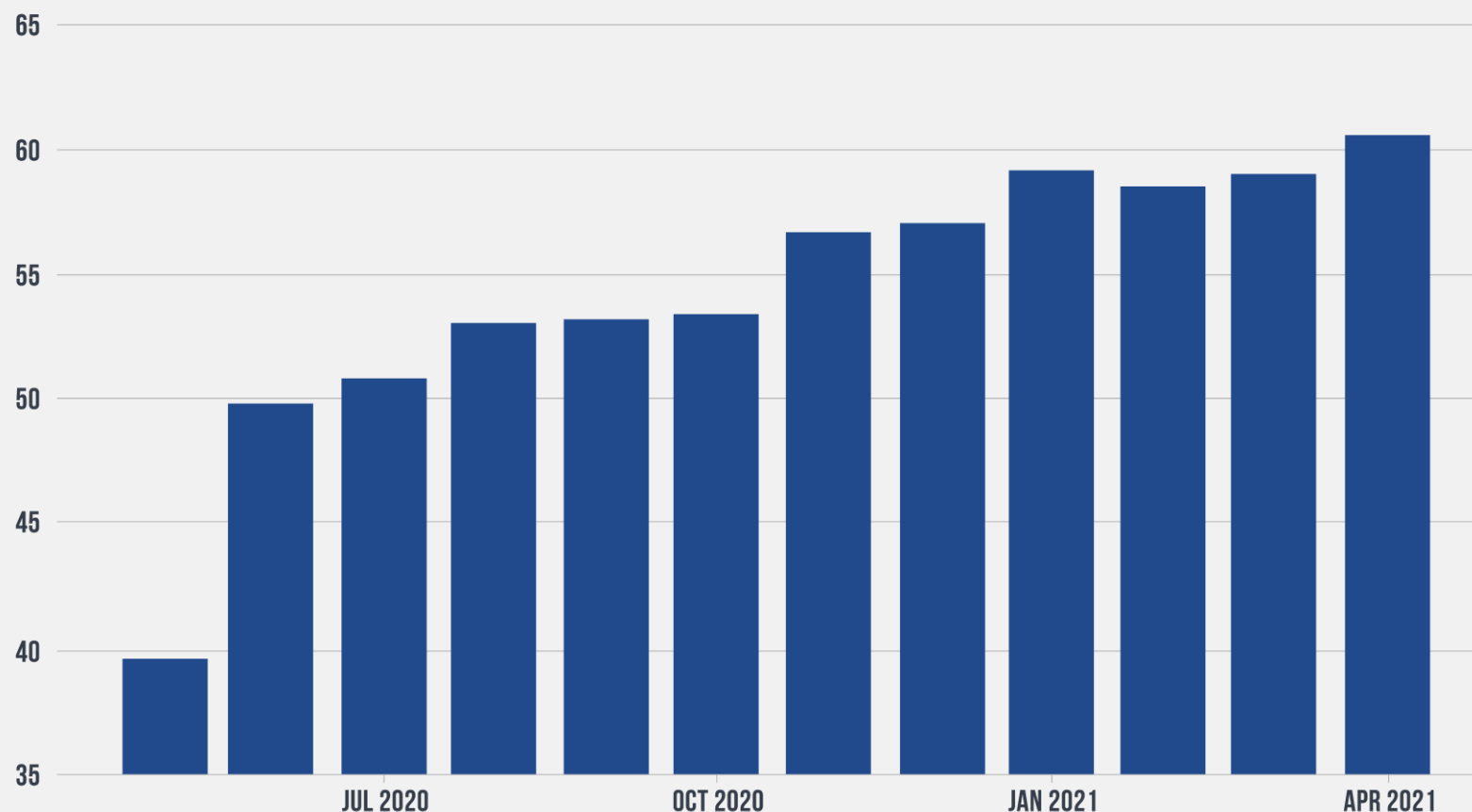
EMPLOYMENT CHANGE IN 12 MONTHS BY INDUSTRY, APRIL 2021



A lot is hiding
in diverse
sectors such as
manufacturing

US ISM Purchasing Managers Index (PMI)

Some positive signs in manufacturing executives' outlook



Manufacturing: Changes in Production Index

- COVID demand
- Supply Chain Disruptions
- Demand Collapse & Rebound?

	Industry Group	FEBR-APR 2020	APR'20-APR'21	MARCH'21-APR'21
COVID ROBUST	Animal food	1%	5%	-3%
COVID ROBUST	Communications Equipment	2%	7%	0%
COVID ROBUST	Dairy product	0%	5%	1%
COVID ROBUST	Semiconductor and other electronic component	-3%	13%	0%
COVID ROBUST	Resin, synthetic rubber, and artificial and synthetic fibers and filaments	-3%	4%	11%
COVID ROBUST	Computer and peripheral equipment	-3%	11%	3%
REBOUND	Motor vehicles and parts	-84%	440%	-4%
REBOUND	Rubber product	-58%	125%	1%
REBOUND	Iron and steel products	-30%	42%	2%
REBOUND	Fiber, yarn, and thread mills	-35%	52%	1%
REBOUND	Aerospace product and parts	-30%	49%	0%
REBOUND	Agriculture, construction, and mining machinery	-50%	109%	1%
MIXED	Office and other furniture	-25%	15%	1%
MIXED	Metalworking machinery	-20%	16%	-1%

Source: US Census Bureau, Industrial production index

Accelerating technologies

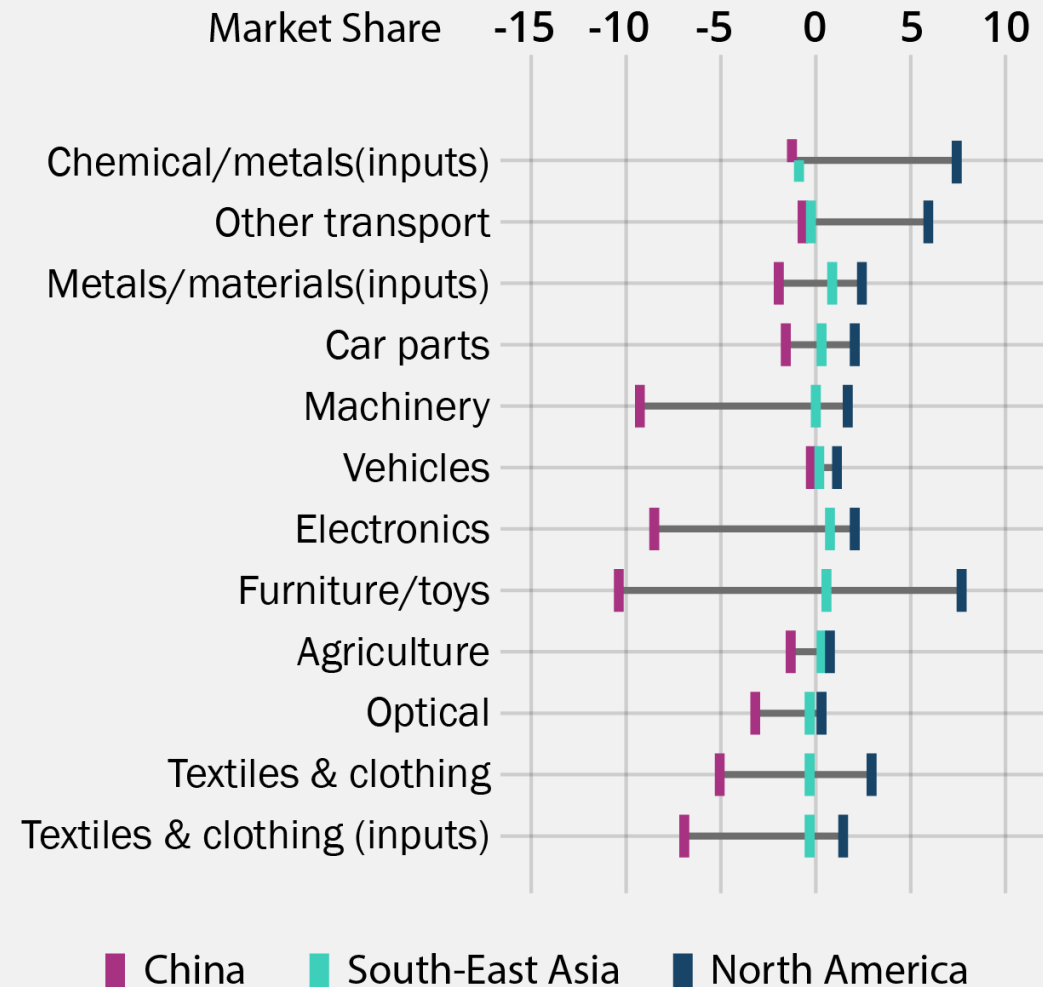
Those part of new normal and technology acceleration

- Distancing measures & reshoring trends = automation & robotics & AI/cloud computing needs
- Remote work becoming permanent part of the economy
- Health IT

Reshoring trends – Previous Change in US Import Market Share

Change in share of US imports between Jul-Dec 2017 and Jul-Dec 2019, percentage points

- 2018 Tariff impacts prepared some industries and companies
- Some imports were shifted to other South-East Asia locations: Furniture/Toys
- Others to Canada and Mexico: chemicals, metals, car parts

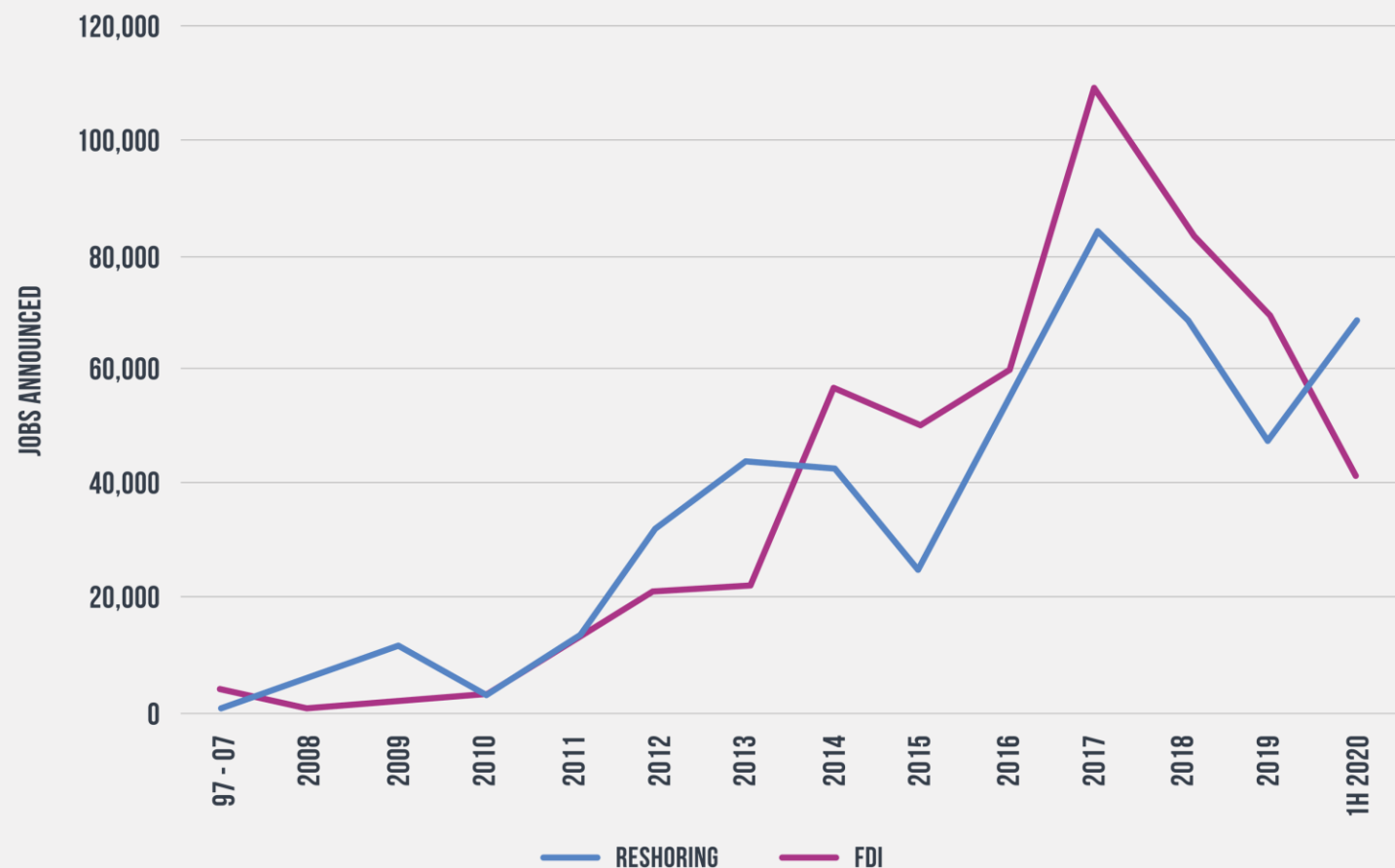


Reshoring trends

2019 Reshoring Trends

Rank	State	Jobs
1	TX	9,437
2	MI	8,918
3	OH	2,789
4	NY	2,751
5	GA	2,592
6	IL	2,565
7	LA	2,249
8	SC	2,109
9	TN	1,555
10	MS	1,539

FDI continued to exceed reshoring in terms of total jobs added, but reshoring has continued to close the gap since 2015, might overtake in 2020 FDI first time since 2014.



How are our trading partners doing?

Some investment patterns have shifted

- Refocus in some areas more on M&A
- How the sectors in our key investment and trading partners' economies have fared will also tell us when we can expect a recovery
- For sectors exposed to export markets and international supply chains, hard to do a v-shape recovery if other countries are rebounding differently

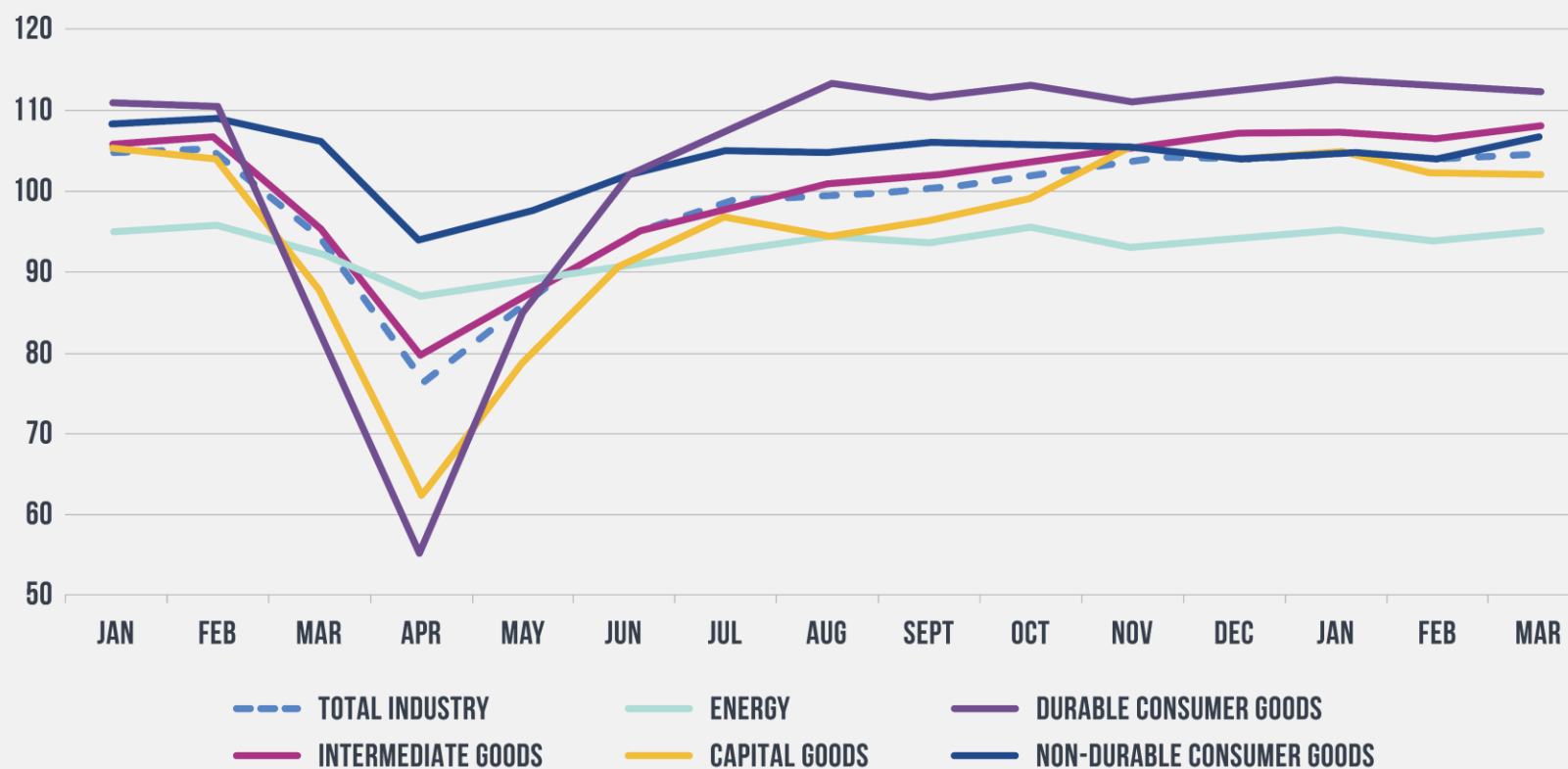


Key Trading Partners for Kentucky – Industrial Production is returning to pre-pandemic levels in most countries

LOCATION	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
BRAZIL	96.7	97.5	98	96.4	97.5	95.5	76.5	96	102.6
CANADA	105.4	105.9	106.1	104.7	104.1	100.4	83.3	98	99.5
FRANCE	104.6	105.5	105	104.4	103.8	96.8	78.4	96.1	98.7
GERMANY	104.5	103.9	102.2	101.1	99.1	97.4	79.5	90.4	96.2
MEXICO	106.1	107.2	108.1	107.9	104.6	103.6	76.2	100.2	104
UNITED KINGDOM	102.8	104.4	101.8	101.1	100.5	98.7	78	94.6	97.8

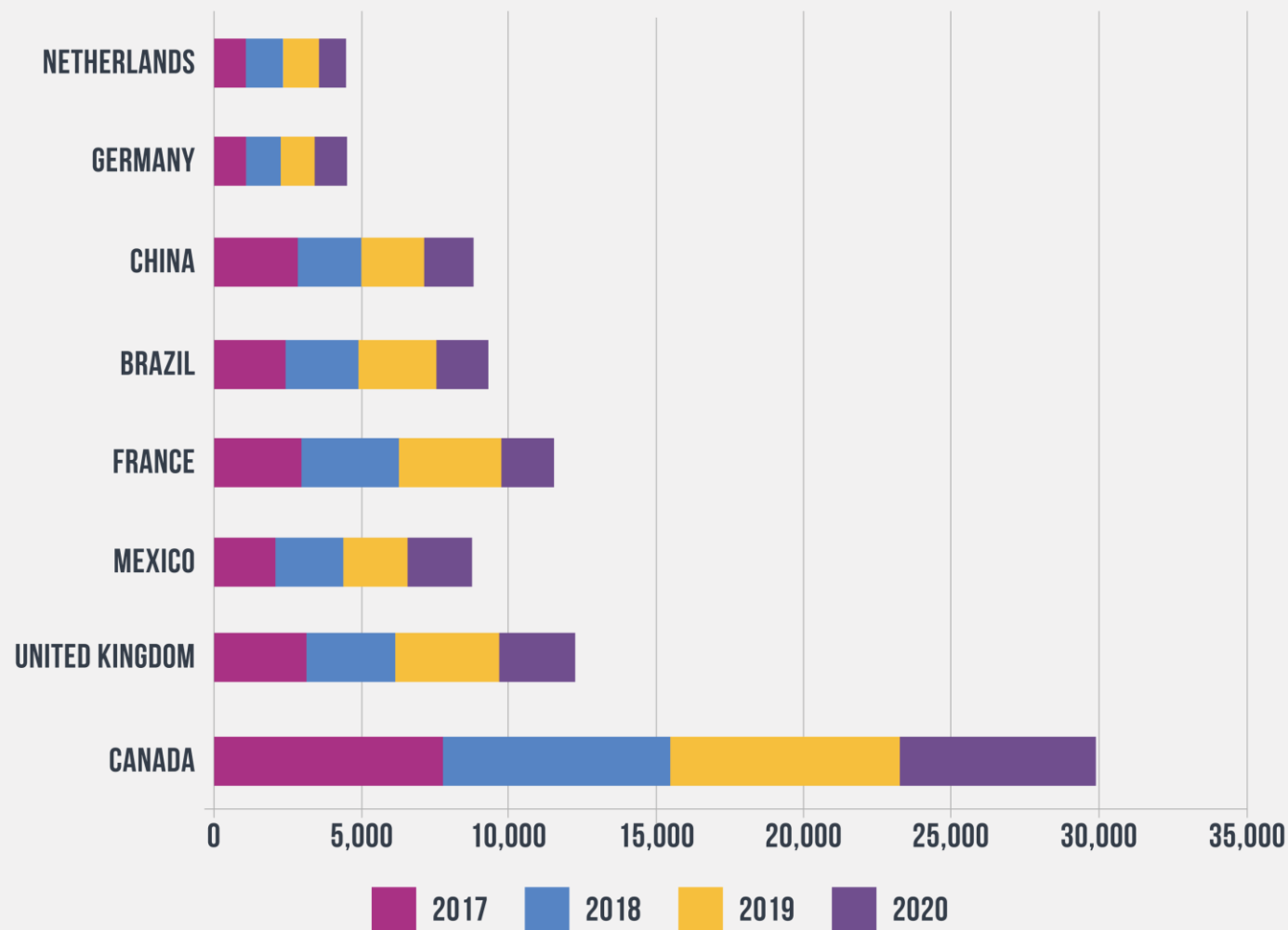
So how are our trading partners doing?

EU, DEVELOPMENT OF INDUSTRIAL PRODUCTION, JANUARY 2020 TO MARCH 2021



Source: Eurostat

Kentucky Export Trends from 2017 – 2020



Source: US Census Bureau

Export Growth Sectors for Kentucky – Industries in 2020

Out of 107 sectors from Kentucky, 17 have are still seeing declining exports compared to Spring 2020, especially Aerospace and Fish/Seafood

% EXPORT CHANGE FROM SAME MONTH LAST YEAR



AGRIFOOD



METALS & MACHINERY

	Y-T-Y GROWTH		
	JAN	FEB	MAR
1122 SWINE	86%	22%	265%
3314 NONFERROUS (EXC ALUM) & PROCESSING	29%	35%	189%
1121 CATTLE	13%	49%	145%
1111 OILSEEDS & GRAINS	111%	88%	82%
2122 METAL ORES	29%	23%	75%
3346 MAGNETIC & OPTICAL MEDIA	39%	29%	66%

Impact on Global International Investment Activity

- For services, M&A and Greenfield equally affected
- Manufacturing hit more in terms of Greenfield
- Compared to 2019:
 - *ICT and Trade only sectors to see increase in \$*
 - *Primary sector saw surge in M&A*
 - *Pharma saw switch to M&A and increased project though at*

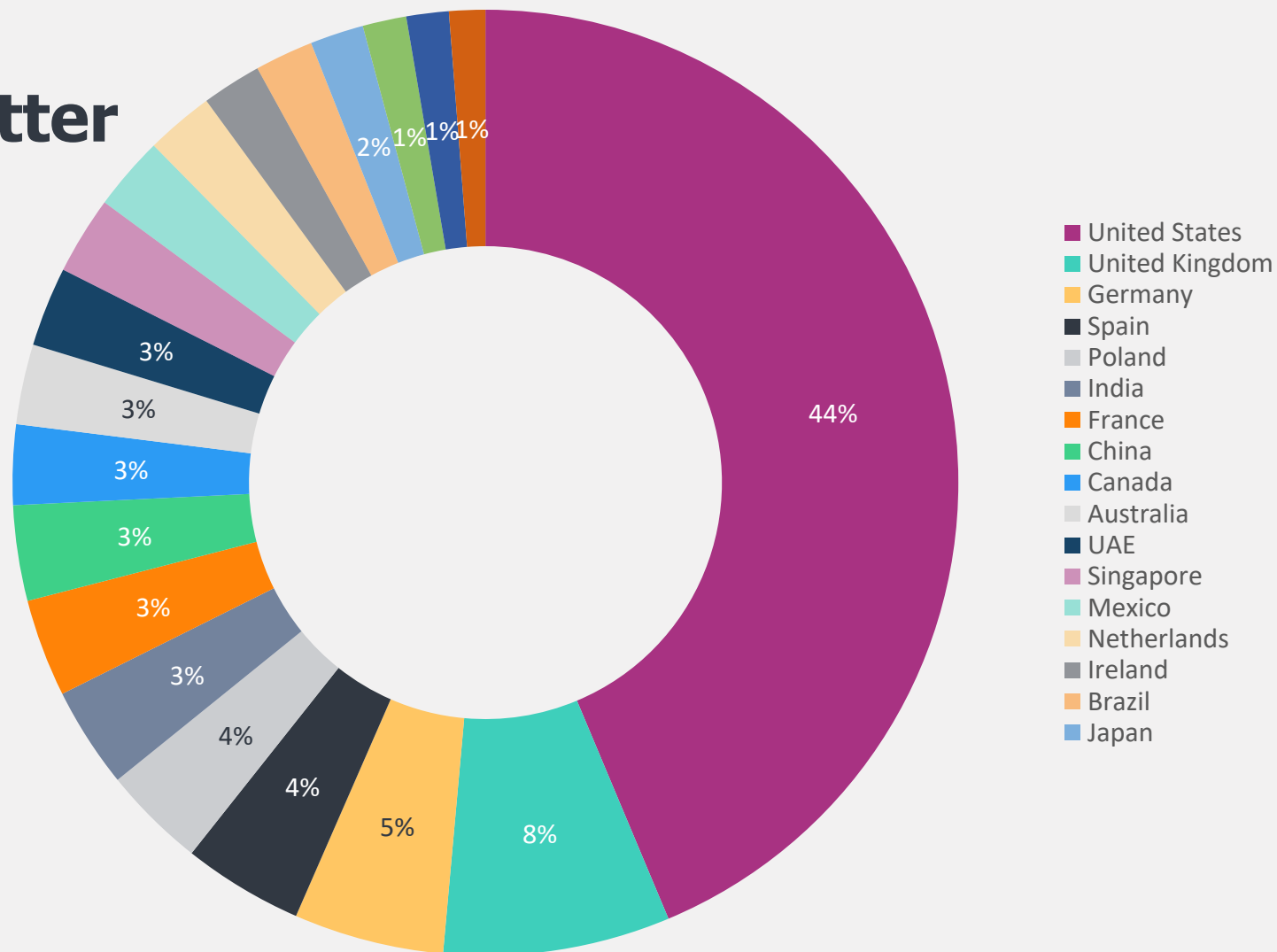
Worldwide Greenfield Project, Change 2019-2020 (prel.)

	Value	Projects
Total	-35%	-35%
Primary	-45%	-38%
Manufacturing	-44%	-44%
Services	-26%	-28%
Utilities	-14%	-8%
Information and Communication	18%	-21%
Electronics	-13%	-36%
Chemicals	-14%	-47%
Construction	-46%	-27%
Coke & Refined Petroleum Products	-70%	-50%
Transportation and Storage	-39%	-23%
Automotive	-59%	-52%
Trade	3%	-23%
Finance and Insurance	-14%	-36%

Why should foreign markets recovery matter to the US?

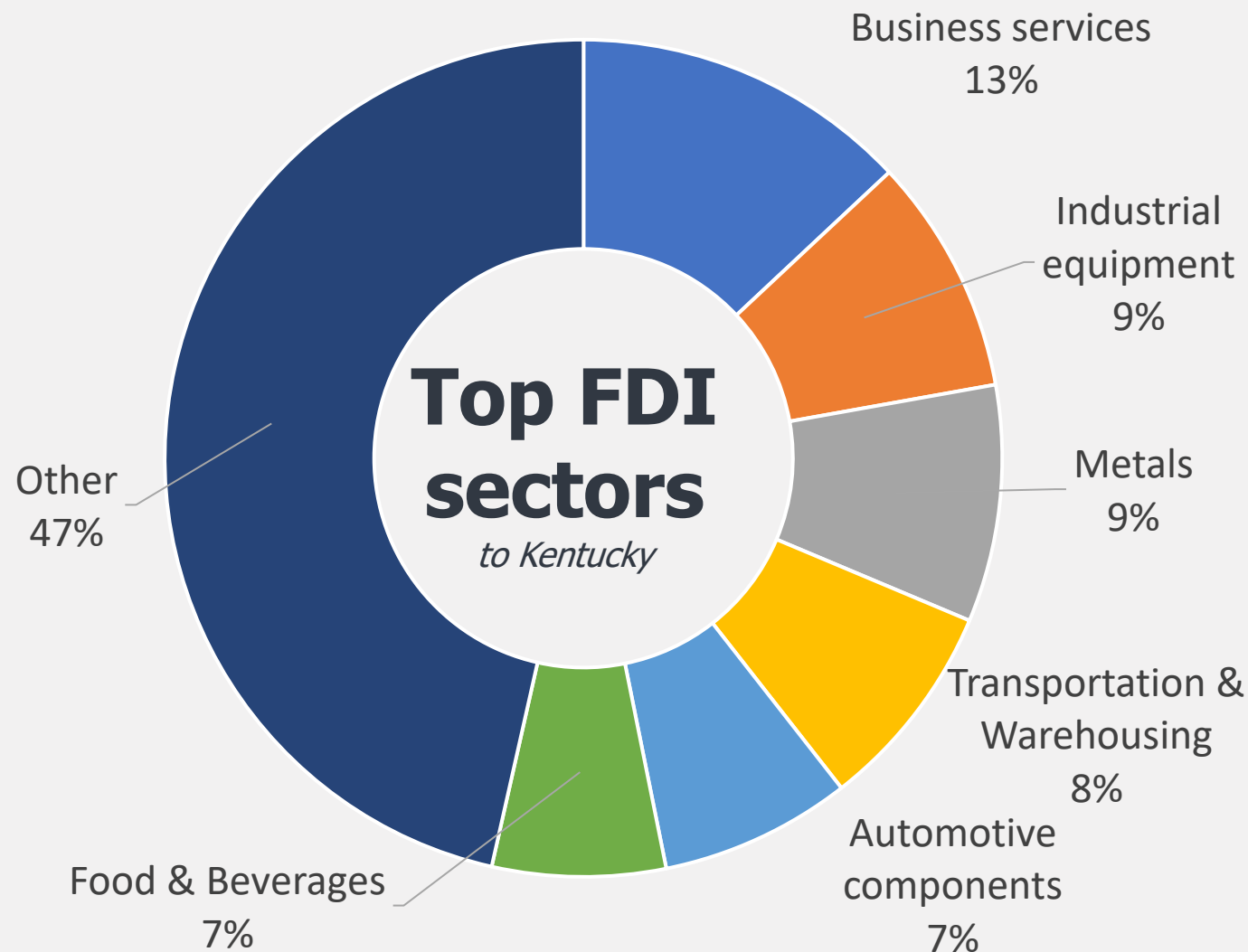
Inward FDI Projects Jan-Dec 2020

Opportunities still exist globally!



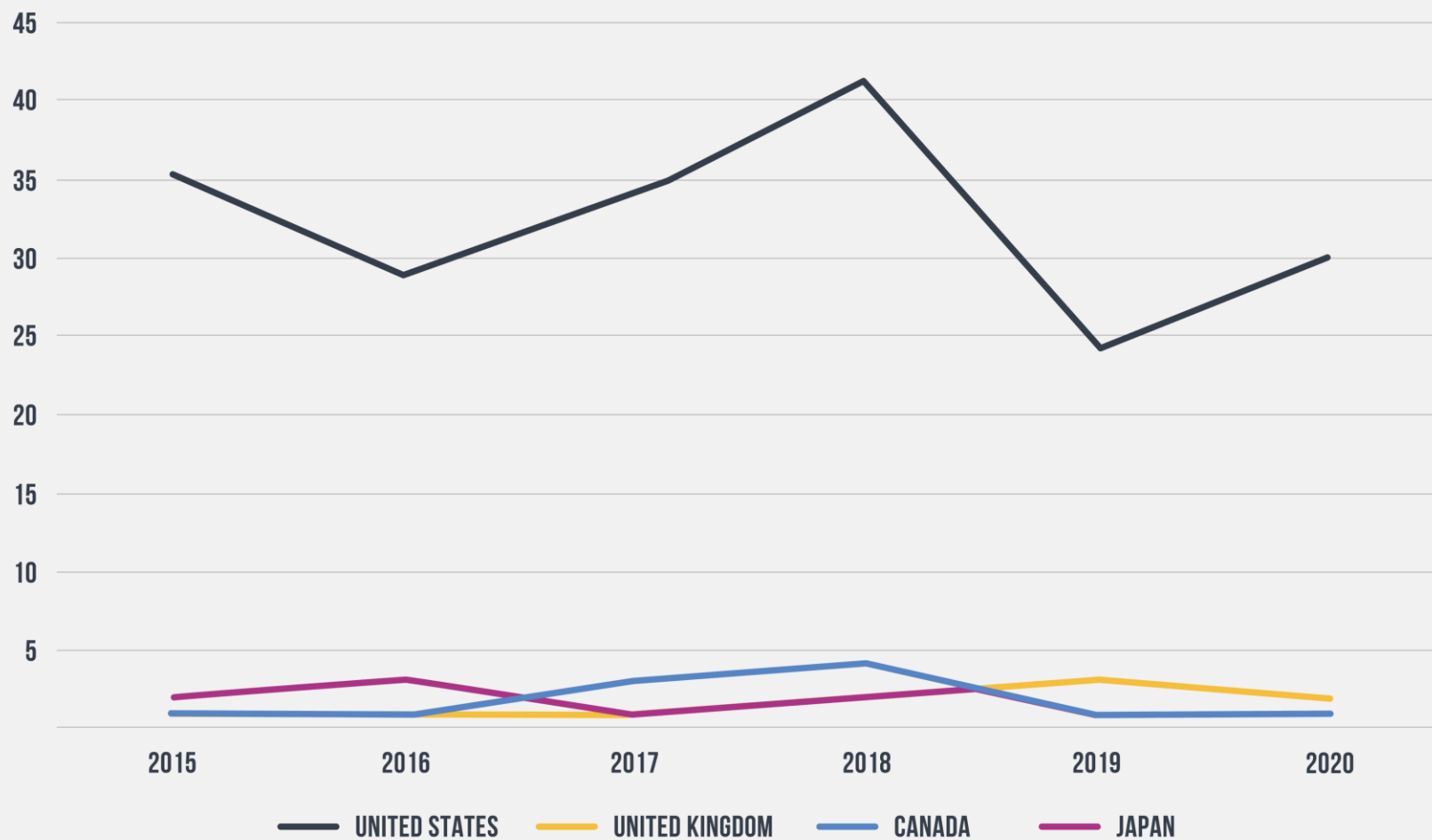
Competitors across other sectors

- Jobs created in food and beverage FDI projects have increased by 25%



Source: fDimarkets, March 2017 – March 2021

FDI into Kentucky – By top Country



Source: USA Trade Online

Kentucky competitiveness as Top FDI and Reshoring Destination

Food & Beverages - a mixed but high potential sector

Companies look for regions with manufacturing history and skilled trades and robust upskilling programs as well as in many cases closeness to raw materials

TOP STATES BY ESTABLISHMENT GROWTH

STATE	ESTABLISHMENT GROWTH 2017-2020
MICHIGAN	21%
MARYLAND	21%
TENNESSEE	20%
GEORGIA	19%
KENTUCKY	19%
ARIZONA	18%
INDIANA	18%
CONNECTICUT	18%
SOUTH CAROLINA	17%
NORTH CAROLINA	16%

FDI and Reshoring Opportunities

What counts



Ecosystem: of course



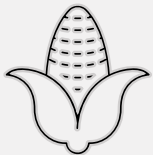
Have to be cost effective: competitive labor, real estate/construction costs, low-cost utilities



Workforce: both entry level and skilled



Transportation access

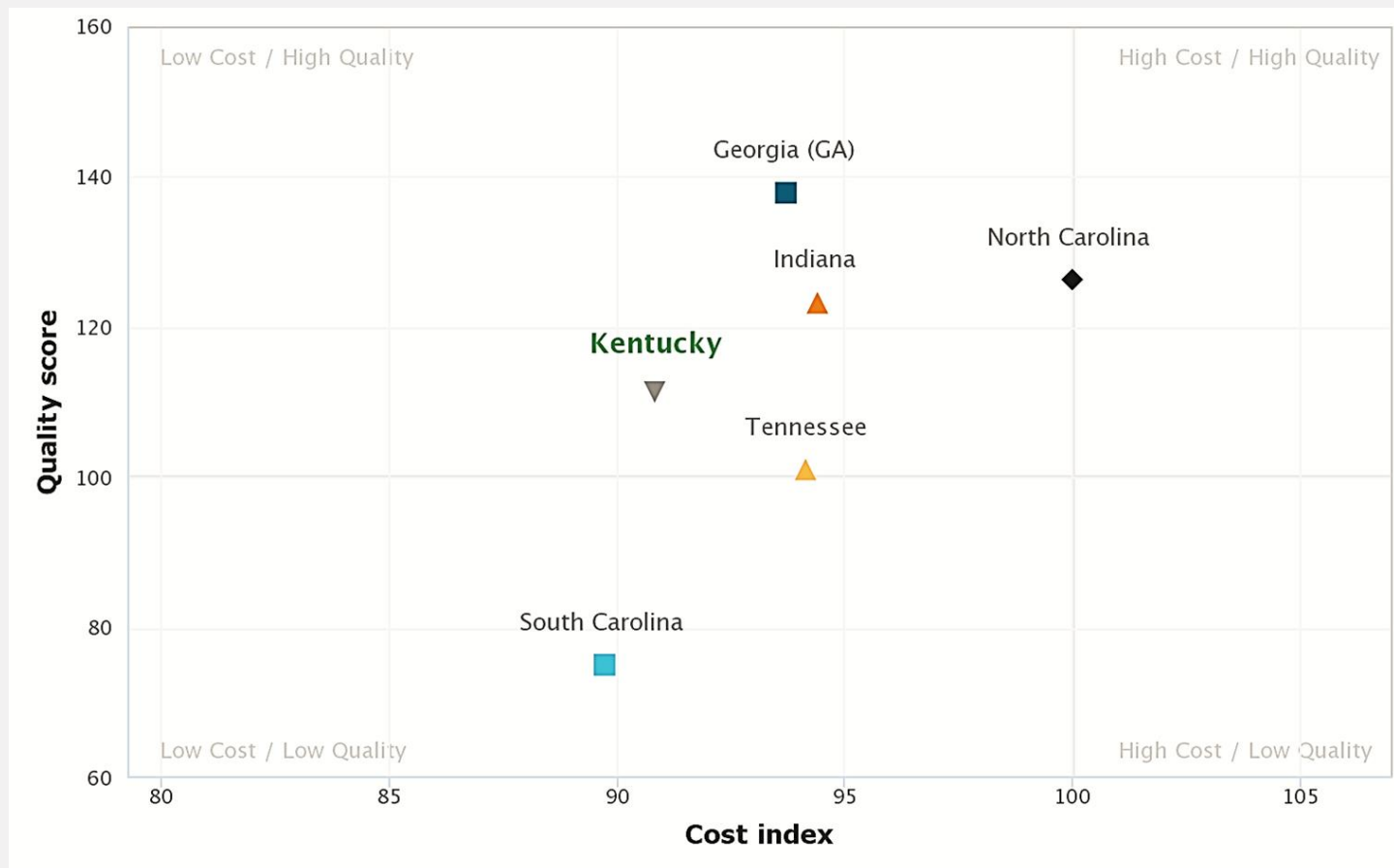


Raw Material: proximity to key agricultural inputs

Competitive Alternative

While some Kentucky metros have more of a cost advantage, others can compete on existing industry assets

Food Manufacturing Plant Project: ~50 employees, ~ 75,000 sft



Source: fDibenchmark

FDI Motives & Business Activities in 2020 in the US

% of FDI Projects with Motive Cited	2019	2020	Jan – Mar 2021
Skilled Workforce	34%	36%	39%
Proximity to Markets and Customers	29%	37%	39%
Domestic Market Growth	26%	17%	23%
Government Support	12%	14%	12%

Business Activities as % of FDI Projects	2019	2020	Jan – Mar 2021
Business Services	32%	31%	26%
Sales, Marketing & Support	21%	18%	19%
Manufacturing	16%	14%	16%
Logistics & Distribution	9%	14%	14%
Headquarters	7%	7%	8%
R&D	5%	5%	3%

Bottom Line

- States/regions with mixes towards more robust sectors will have an easier time recovering, as well as those generally more economically diversified
- Track not just US businesses and industries but our main trading partners
- Trading and Investment focus might be shifting a little as well as some site selection factors but fundamentals of market access and workforce availability are still key

— QUESTIONS?