BAIN & COMPANY

Ukraine Crisis: Respond and Reposition

6th April 2022

The crisis in Ukraine is first and foremost a **humanitarian tragedy**

The Russian attack on Ukraine has set off a humanitarian crisis, involving both massive casualties and a wave of displacement

At such a time, the safety and well-being of your company's people must be the No. 1 priority

Bain & Company condemns the senseless attack on Ukraine

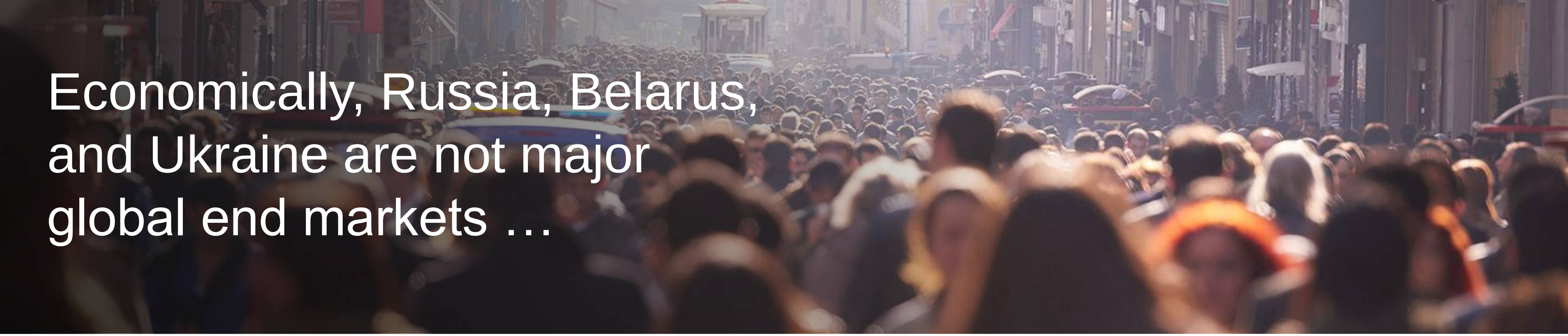
We are providing financial support and pro bono advice to humanitarian organizations, and encourage other companies to support however they can

>3,500
civilian casualties

>4M
Ukrainian refugees

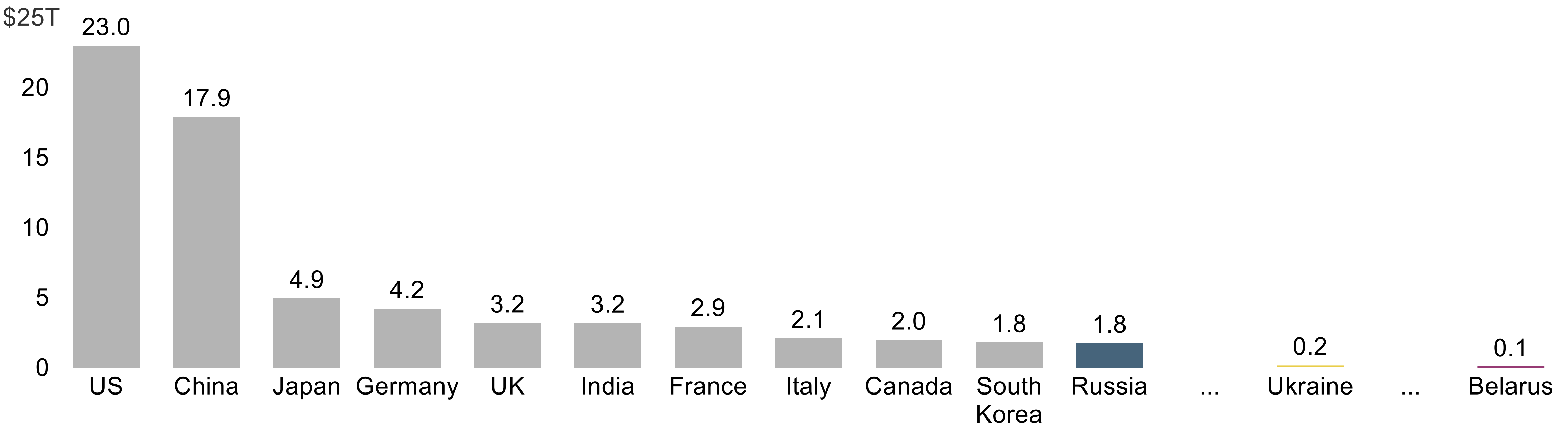
>$100B
physical damage

Note: Data as of April 6, 2022
Sources: UN High Commission on Human Rights; Reuters; BBC



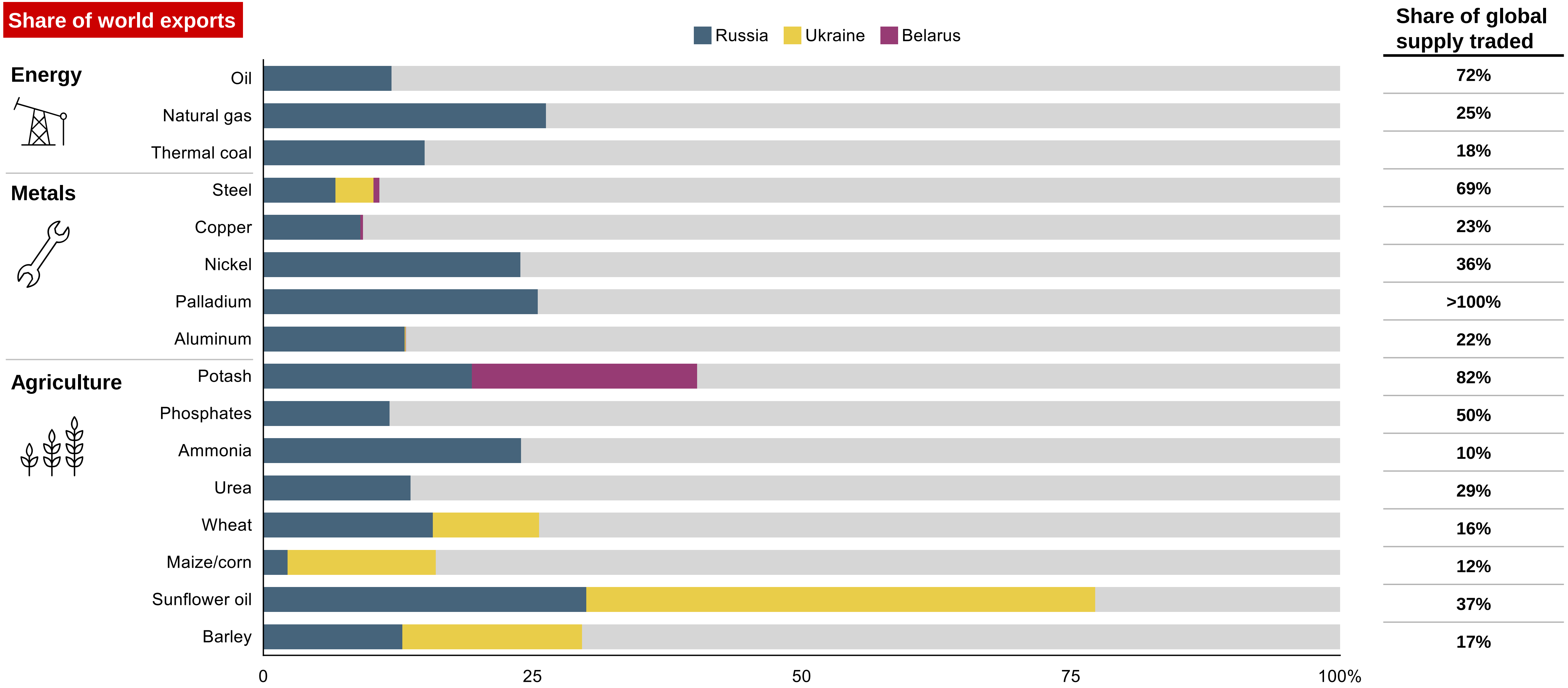
Economically, Russia, Belarus, and Ukraine are not major global end markets …

2021 GDP (in trillions of US dollars)



Source: IHS Markit

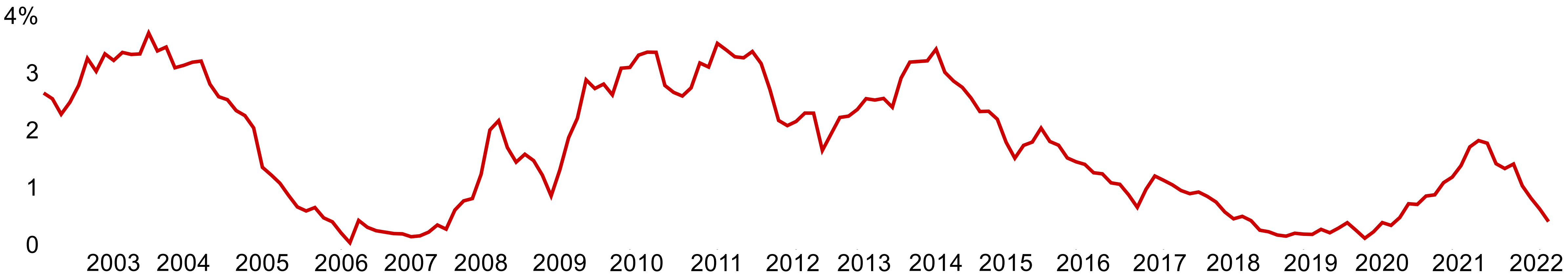
… but they are critical sources of supply in a range of commodities



Note: Palladium total trade including recycled palladium is greater than annual supply
Sources: Comtrade, Refinitiv, USDA, BP, IFA, Nutrien, DTN, USGS; Bain analysis

Financial markets are pricing in a rough ride ahead

Spread between 30-year swap rates and 2-year swap rates in the US



Declining spread between short-term and long-term bond swap rates indicates that the market is expecting **an economic slowdown in the near term**

Source: Macrobond

We see a number of potential vectors of disruption in the business environment

Loss of Russian markets and assets

Many multinationals to cease sales and operations in Russia for the foreseeable future

Loss of markets and assets also extends to conflict zones during the war

Natural resource shortages

Oil and gas, metals, wheat, and other commodities experience shortages and price spikes of varying severity

Decarbonization experiences a short-term reversal—as coal is used to help cover shortfall in Russian gas—followed by a medium-term acceleration

Cascading supply shortfalls

Lack of access to input resources and energy exacerbates existing supply chain issues in an expanding range of industries

Suppliers increasingly forced to prioritize most valuable customers

Mounting inflation

Spiking commodity prices and deepening supply shortages further accelerate rising inflation

Consumers cut back on nonessentials and increase price sensitivity

Pressure mounts on central banks to raise rates

Financial market instability

Gyrations in financial markets continue

Capital flows to eastern Europe dry up

Potential for currency, payments, and sovereign debt crises, especially in emerging markets

Real economy slowdown

Combination of reduced consumer spending power and deteriorating financial conditions leads to recession or stagflation in different countries

Potential reintroduction of government stimuli

Technological disruption

Escalating collateral damage from cyber warfare

Balkanization of technology stacks along geopolitical lines

Crisis as catalyst for increased innovation spend and further tech breakthroughs

Geopolitical realignment

Geopolitical blocs solidify into trade and investment blocs

China and the West further distance themselves from each other

Governments increase military spending and adopt more active industrial policies

HIGH CONVICTION
trends already underway

LESS CONVICTION
potential for delayed impacts

We are helping our clients think through a range of possible actions as they **respond** and **reposition**

	Respond	Reposition
People	Ensure the safety and well-being of your people	Assess talent sourcing strategy (locations, partners) Ongoing capability development around crisis management, disaster recovery, and business continuity
Supply chain and operations	Assess supply chain exposure, including impacts to inventory, affected N-tier suppliers, product components, and logistics Identify and secure alternatives across inputs, supply, and transportation	Enhance end-to-end supply chain visibility Increase resilience through strategic redundancy and reduced geographic risk exposure
Technology	Bolster cyber defenses	Ready technology architecture for greater balkanization along geopolitical lines
Market participation	Determine financial impact of loss of market access Implement cessation of Russian operations, where needed	Rebalance portfolio in consideration of future potential geopolitical flashpoints (geographies, industries)
Financial position	Pressure test liquidity and solvency under different scenarios	Reevaluate use of financial hedges and insurance Revisit leverage/liquidity choices for a more volatile world
ESG and Corporate citizenship	Mobilize immediate humanitarian support for those impacted in the conflict zone and beyond (e.g., refugees) Determine values-based posture on future participation in Russian market	Define red lines in anticipation of future geopolitical crises Strengthen relations with government and wider stakeholders Continue to accelerate on decarbonization efforts

In this highly turbulent environment, a scenario-based planning approach is essential

Principles for using scenarios

1 Focus on the business environment

The overall contours of the conflict—its severity, scope, and duration—will shape the nature of the disruption in the business environment, but avoid focussing too heavily on the geopolitical specifics

2 Remember that everything is connected

The vectors of disruption are interconnected; more disruptive outcomes on one dimension will lead to more disruptive outcomes on others; don't build scenarios in silos

3 Factor in responses

Shocks to the business environment trigger responses from companies, governments, and individuals; these can dampen, amplify, or redirect the impact of the shock, and must be accounted for

4 Keep scenarios live

There remain many "unknown unknowns" around how the current crisis will play out; monitor the situation carefully, and be willing to update scenarios as/when previously hidden factors emerge

5 Balance scenario planning investments with adaptability and resilience

Even the best forecasting will get things wrong; ability to adjust quickly and to bounce back from shocks will be vital

As an illustration, below we consider three plausible, integrated scenarios

Contained disruption

As part of a negotiated settlement, some government-sponsored sanctions are lifted on Russia, but the private sector remains hesitant in some sectors to reenter the market

Energy inflation abates as the fear premium erodes, but Europe continues to explore plans to reduce dependence on Russian gas, helping to accelerate renewable investment

Food prices remain elevated and shortages mount due to lost planting season and elevated input prices

Europe has a shallow recession; US growth slows but recession is avoided

Ongoing disruption

Ongoing conflict means energy and agricultural market disruptions continue throughout 2022

Central banks raise rates sharply to combat growing inflationary pressure

Spiking prices and higher rates lead some parties to fail and counterparties to become undercapitalized, resulting in financial market destabilization

Demand collapses, triggering rapid shift from inflation to deflation, including in energy prices

Military spending and state intervention remain structurally elevated due to ongoing geopolitical tension

Expanding disruption

China provides public support to Russia as conflict drags out, triggering sanctions and countersanctions

Supply chains seize up, inflation becomes self-sustaining, and the global economy enters a period of stagflation

Multinationals increasingly struggle to navigate a decoupled global economy, including balkanized technology stacks

US government supports major investments in fossil fuels (and agriculture), stalling decarbonization

Government policy reorients around national security in the face of periodic cyber attacks and satellite conflicts

Now is the time to think holistically about navigating a world of **structurally greater turbulence**

Assess your exposures with an investor mindset

Build visibility into first- and second-order exposures, analyzing the business as a portfolio of implicit long and short bets

Rebalance toward your best bets

Leverage scenarios and alternative portfolio modeling to reshape revenue base, operations, and supply chain, ensuring the right mix of exposures

Invest to create resilience in your chosen positions

Build redundancy, hedges, and optionality to ensure remaining portfolio is resilient against a range of plausible scenarios