



AlixPartners

Tariffs: An A&D Perspective

● How AlixPartners can help



Tariffs – Current situation

- The recent **escalation in global tariff measures**—announced by the US administration and **met with different international responses**—signals a pivotal shift in the global trade landscape
- While the **Aerospace & Defense** (A&D) sector enjoys certain structural buffers, such as exemptions under USMCA and its largely domestic defense base, the evolving trade environment presents a spectrum of risks requiring decisive and immediate action

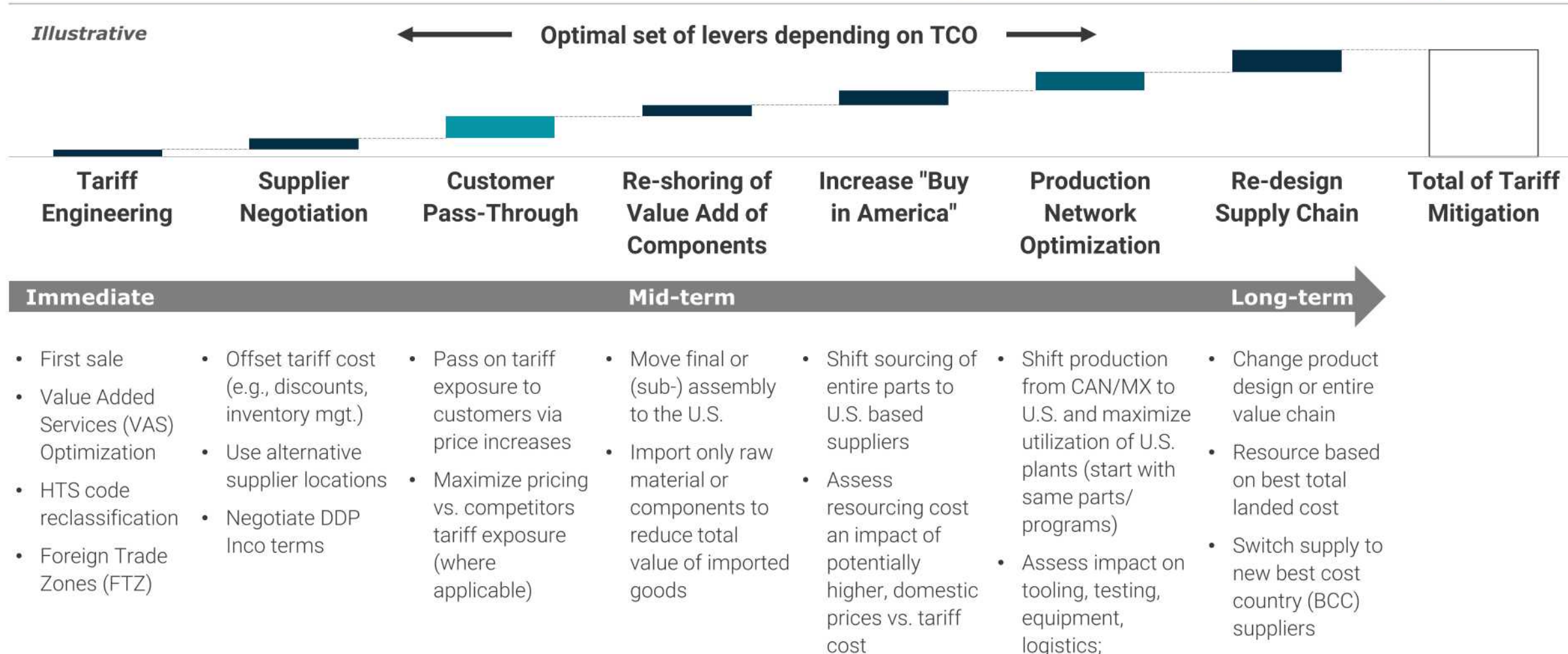
Some key highlights:

- **Frequent adjustments to broad-based tariffs** introduced to rebalance trade and incentivize reciprocity, with layered structures
- **Strategic exemptions for critical sectors** (e.g., semiconductors, energy, defense-grade metals), yet **many components remain exposed**—particularly in dual-use and upstream supply chains
- While pass-through mechanisms in commercial aerospace soften direct financial impact, **global supply chain exposure persists volatility in sourcing and lead times**; not to mention suppliers invoking force majeure and customers threatening not to take deliveries
- The **complexity of the multi-layered commercial aerospace value chain**, as well as its global footprint, increases the impact tariffs have on the industry, and may **generate further constraints to ongoing OEM-driven ramp ups**
- Though buffered by domestic focus, international **defense sales may be affected** by retaliatory actions and geopolitical tensions, **impacting collaboration with foreign partners**
- Large-cap defense firms remain resilient, but **SMID-cap players face amplified risk due to concentration, capital intensity, and international exposure**
- With tariffs shifting rapidly, **organizations must act now** to gain real-time visibility, mitigate exposure, and plan for structural adaptations—delayed response increases the risk of margin erosion, operational disruption, and competitive disadvantage
- We recommend **setting up a tariff war room to address all aspects of the business** including liquidity management, duty engineering, pricing actions, G&A optimization, and planning for long term supply chain reorganization
- In this document **we highlight key levers** (short, mid, and long term) you can use **to mitigate tariff impacts**

We can help companies mitigate tariff impacts substantially where the conditions permit; the optimal tariff mitigation strategy depends on total cost considerations

Potential Tariff Mitigation By Lever

■ Supply Chain/Sourcing ■ Manufacturing ■ Commercial



Tariff Engineering: Near-term 'no regret' levers

Levers	How it works	What do we do
'First Sale' Application	Separate direct value add from indirect cost to reduce the assessable value on which tariffs are calculated	<ul style="list-style-type: none"> • Identify and prioritize suppliers and products • Worked alongside trade lawyers and brokers to set up program • Set up First Sale program to rework product assessable value and ensure processes/technology in place to enable it
Value Added Services (VAS) Optimization	Optimize existing VAS (packaging, labeling, assembly, testing, customs) to tariff-favored zones thereby increasing local value add for duty reduction (if >50% = exemption)	<ul style="list-style-type: none"> • Streamlined Value-Added Services by separating non-dutiable activities (e.g., testing and labeling) and invoice separately to reduce overall duty rates • Identify opportunities (within the existing manufacturing footprint/supply chain network) to relocate packaging, labeling, and assembly to tariff-favored regions, if achieving >50% local value generation, you can seek exemptions
Harmonized Tariff Schedule (HTS) Code Optimization	Evaluate and appropriately classify products into HTS codes with optimal duty rates	<ul style="list-style-type: none"> • Detailed analysis to identify opportunities • Legal consultation/documentation developed supporting optimized classification • Reclassified products with alternate HTS codes, achieving tariff reduction
USMCA/Global Trade Agreement Compliance	Optimize the use of Free Trade Agreements like USMCA by ensuring products comply with origin criteria to benefit from duty-free status	<ul style="list-style-type: none"> • Live-data feed integration with latest tariffs publications • Digitization and AI enabled cross referencing with published trade agreements • Identification of exemptions and opportunities to mitigate/minimize tariffs • Comprehensive origin compliance analysis and documentation to support compliance with US & Customs Border Protection (CBP) rules

Our Global Trade Optimizer Platform | Our platform ingests your entire data, calculates tariff burdens, and runs alternative scenarios to inform decisions

Global Trade Optimizer Platform

Financial, compliance, reputational, operational risks

Competitive & commodity trend

Multiple databases of imported goods, importers, exporters

Risk & Resiliency

GLOBAL TRADE OPTIMIZER

Global competitive supply base

Benchmarking & intelligence

Live data link to indices for all major raw materials, , labor, logistics, etc.

Trade & tariff

Tariff/duty rates and rules for multiple products all HTS codes

Product input cost factors (materials, labor, freight, etc.); 1000s of should cost models

Should cost models & drivers

How GTO optimizes supply chains

1



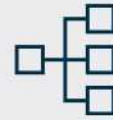
Assess and quantify import profile and Tariff impact across the value chain

2



Develop tariff mitigation strategies – First Sale, Duty re-engineering, FTZ, etc.

3



Develop economical alternative suppliers to current sourcing options

4



Model E2E supply chain cost and resilience considering current and expected tariffs

5



Conduct rapid RFx and supplier evaluation to prepare to shift volumes

GTO uses three key databases to enact the steps above:

I



Import data (US International Trade Commission)

II



Trade Regulation and Tariff (US Dept. of Commerce)

III



Country/Regional market data – Various sources of raw material, labor, freight, and duty, etc.

Disclaimer – Important information regarding this report

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