Most private equity investors pursue operational improvements across their portfolios. But are they pursuing the right improvements, how can they best maximize returns from these investments? Join this webinar to explore best practices for Operational Due Diligence, and discuss which post close levers will deliver increased profitability, organic growth and higher exit multiples.

Register today to gain insight into:

- Evolution of Operational Due Diligence in Private Equity
- Realizing greater ROI for Operational Investments
- What levers to pull, and when!

This webinar is hosted by TriVista, a boutique operations consulting firm providing Quality of Operations™ Due Diligence, Enterprise Excellence and Top Line Growth services to middle market Private Equity investors and their portfolio companies.

QUALITY of OPERATIONS™

DUE DILIGENCE

Enhancing Returns:

Private Equity Operational Value Creation

TriVista

TRIVISTA.COM

TIM RISTOFF
CEO & Managing Director

Tim Ristoff

Managing Director & CEO - TriVista

Experience:

- 25 years of experience in operations and general management
- Former Multi-Division President, ITT Corp. (NYSE: ITT)
- Founded TriVista; 2006
- >100 Quality of Operations™ DD Engagements
- Deal sizes $10 M to $3 Bn

Full Bio: trivista.com/tim-ristoff/

QUALITY OF OPERATIONS DUE DILIGENCE

Today we will discuss:

1. Evolution of operational due diligence in PE
   a. Past (prior to 2008)
   b. Present (2008 to 2015)
   c. Future (2015 and beyond)
2. Drivers of value enhancement and how to make them a reality
   a. Six steps required to deliver exceptional performance
   b. Achieving Operational Excellence – Timing is everything

You will have the opportunity to ask questions about:

- Operational Due Diligence best practices
- How to leverage Operational Due Diligence to create competitive advantage
- How you can deploy operational strategies to improve returns

QUALITY OF OPERATIONS DUE DILIGENCE

In the last 10 years we have witnessed a big shift in the PE landscape

Past (Pre-Great Recession)

- Financial creativity could often provide adequate returns
- Heavy reliance on Quality of Earnings (Q of E)
- Most likely, operations were viewed as a post close topic
- If operations were addressed during due diligence, the primary focus was on risk avoidance

Present: (Post crisis - Shift from reactive to proactive)

- **Immediately post crisis:**
  - Number one concern of every investor - How did the asset respond to the 2008/09 market correction and what operational risks will we face if we have another market correction?
  - Number one quote - "We are focused on Capital Preservation – don't lose the money I have invested"

- **The past few years:**
  - More competition down market
  - Significant multiple expansion, reducing room for error post close
  - Operational expertise viewed as creating competitive advantage
  - Prevalence of "Quality of Operations" analysis pre close and post close
  - Laser focused on first year of ownership

EVOLUTION OF OPERATIONAL DUE DILIGENCE IN PE

Near Future:

- Deal activity hitting four year lows (matching 2011 data)
- PE Comments – “Few solid assets in the market resulting in higher multiples being paid”
- Much higher levels of debt… 5X to 6X+
- Hold period drift… longer exit time horizons
- PE Comments – “We will most likely need to hold the asset during a market cycle”

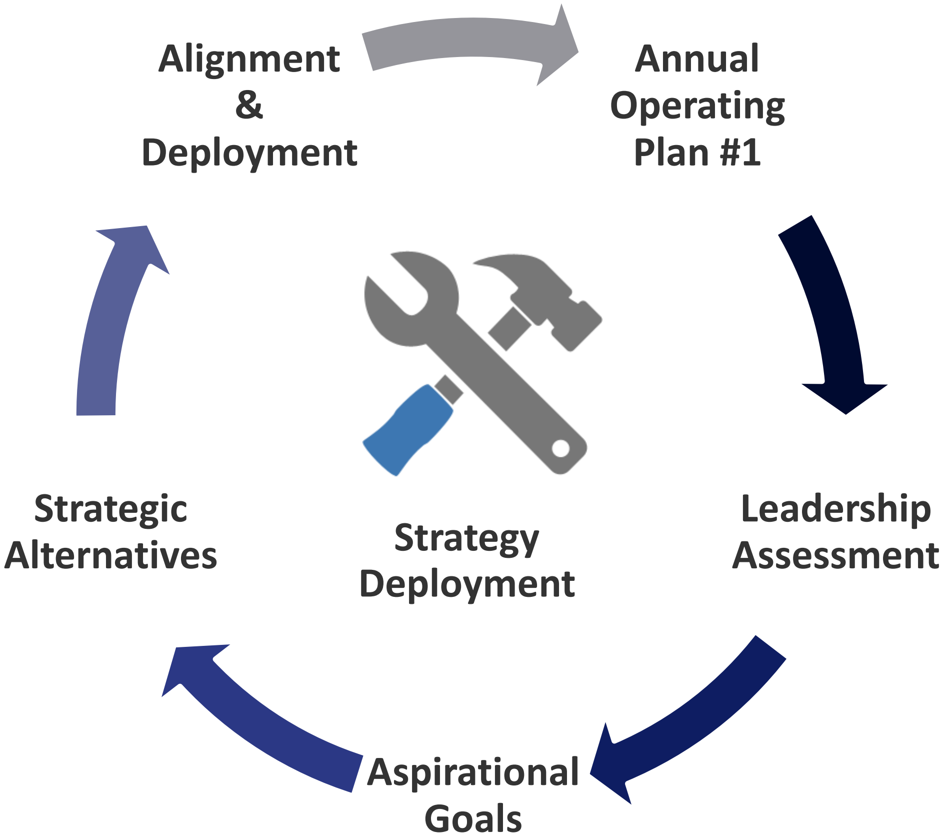
Best in Class Response:

- Confirm the operational risk profile and identify countermeasure during Due Diligence
- Develop a three year operating roadmap aligned with the investment thesis
- Drive greater institutionalization of processes and protocols
- Address operational leadership upgrades immediately
- Assure manufacturing footprint alignment – globally
- Prepare operationally for market uncertainty

**70% of PE professionals polled*
**Recent poll by THE DEAL & Pepper Hamilton*

OPERATIONAL IMPROVEMENT - VALUE LEVERS

- Deal context and company operational maturity determines which levers to pull and when
- Focus on mapping exit strategies to existing competencies and deficiencies
- It’s not a question of a 100 day plan – it is a three year plan
- Relentless pursuit of enterprise excellence will yield most value



Source: TriVista Business Group Inc.

1

Build a strong operational plan focused on protecting the core, driving productivity and developing leadership – this links directly to the annual budget and bonus targets

QUALITY OF OPERATIONS DUE DILIGENCE

Source: TriVista Business Group Inc.

2

Identify leadership competencies and gaps

Source: TriVista Business Group Inc.

3

Collaboratively develop an aspirational strategic goal with management

"All our dreams can come true, if we have the courage to pursue them."
-Walt Disney

Source: TriVista Business Group Inc.

4

Challenge management to brainstorm **strategic alternatives** that will support the strategic goal(s);

Ask them to think outside the box

Source: TriVista Business Group Inc.

5

Ensure **complete alignment** between management and the Board on strategic alternatives to be pursued

Source: TriVista Business Group Inc.

6

Link the operating plan and strategic alternatives with a solid execution tool – **“Strategy Deployment”**

Source: TriVista Business Group Inc.

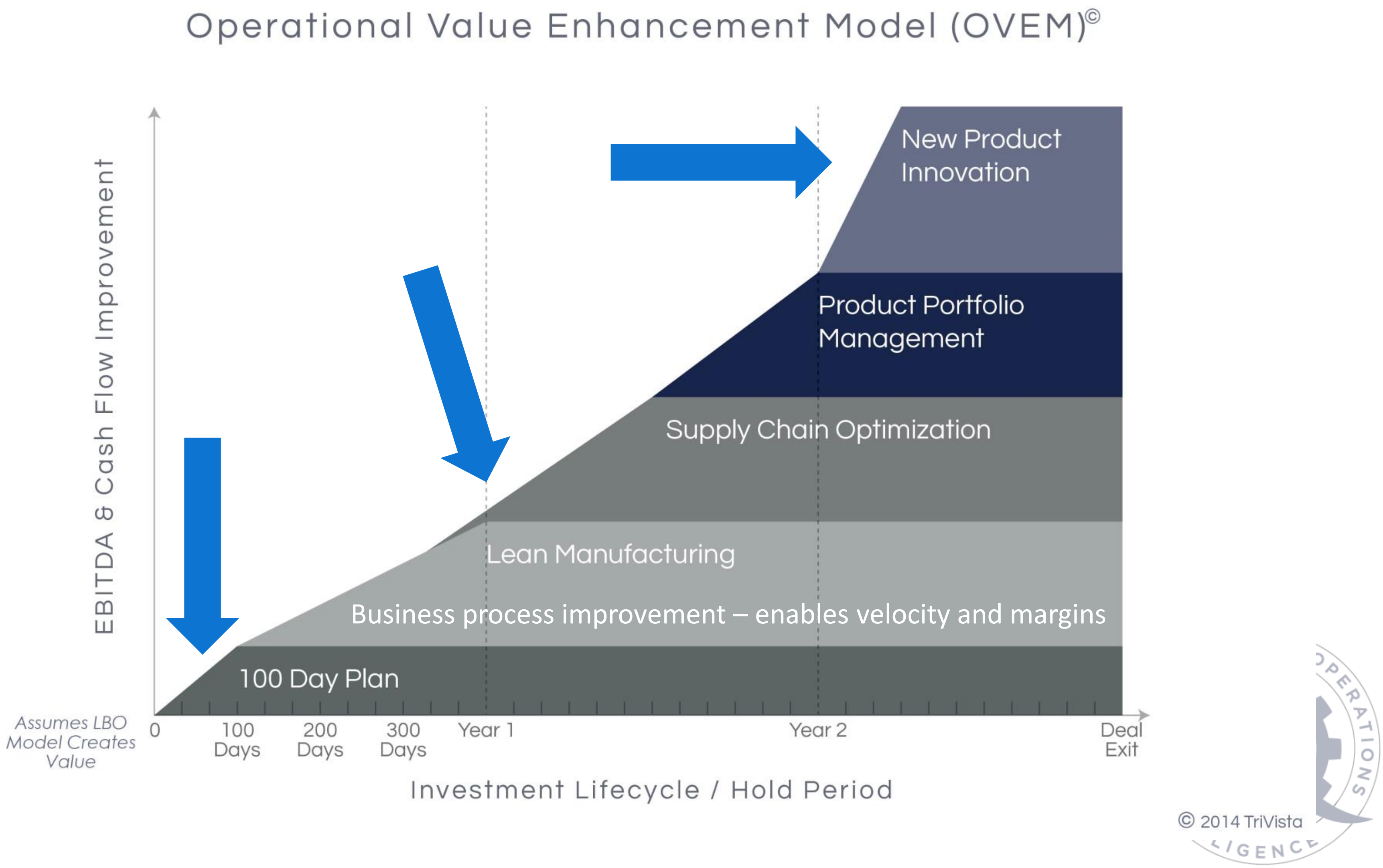
The world's best companies utilize operational excellence as the pillar of their organic growth strategy

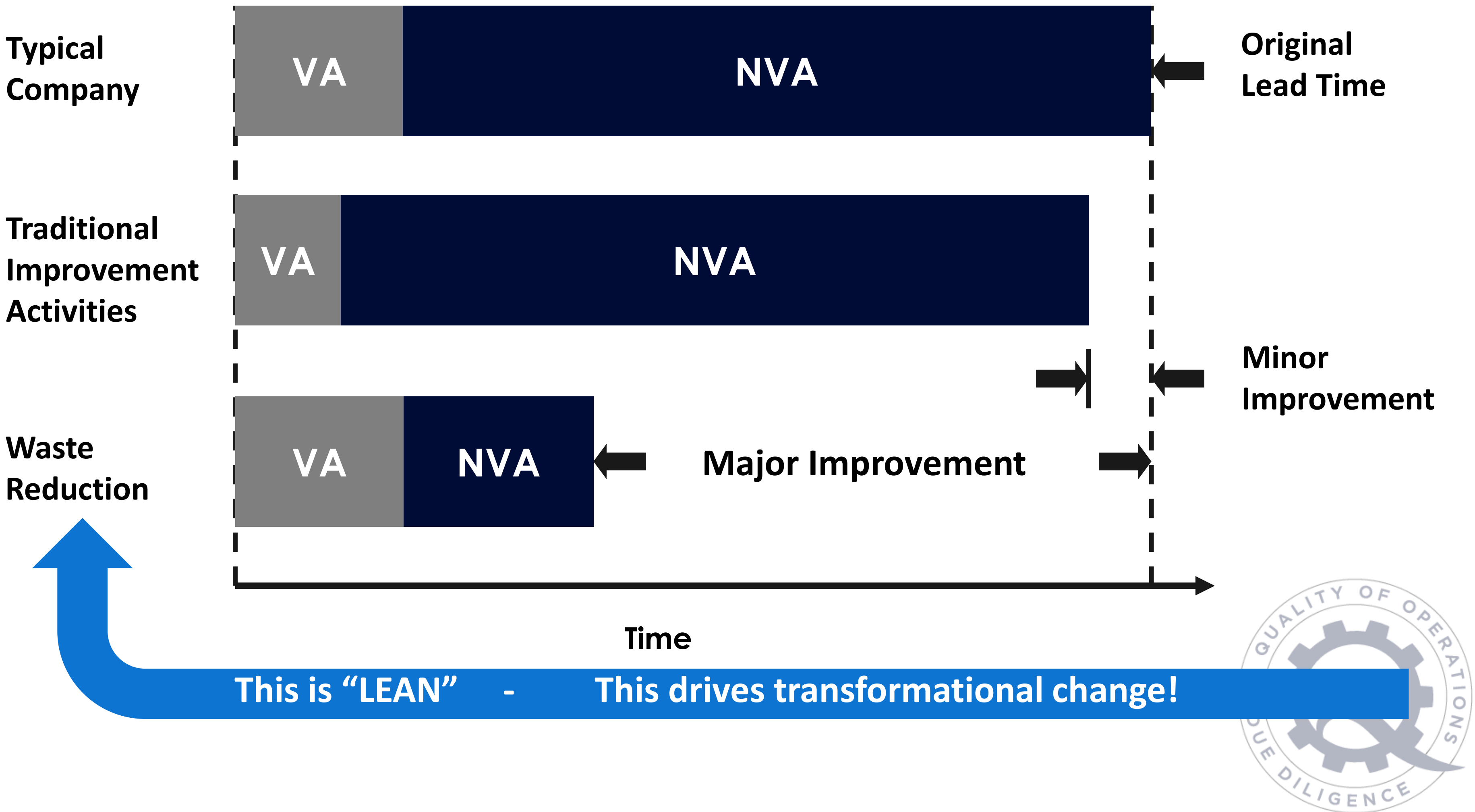
Operational Velocity- minimize manufacturing cycle time to reduce costs, increase customer satisfaction (lead-times), & minimize forecasting error

Supply Chain Integration – align the supply chain to reduce cycle time, minimize costs and enhance quality

New Product Development – develop new products with unrivaled customer value – faster, more economically and with greater success

When and how to deploy these initiatives is critical to long term success


Operational Value Enhancement Model (OVEM)©
EBITDA & Cash Flow Improvement
New Product Innovation
Product Portfolio Management
Supply Chain Optimization
Lean Manufacturing
Business process improvement – enables velocity and margins
100 Day Plan
Assumes LBO Model Creates Value
0
100 Days
200 Days
300 Days
Year 1
Year 2
Deal Exit
Investment Lifecycle / Hold Period
© 2014 TriVista
OPERATIONS
IGENCE


Typical Company
VA
NVA
Original Lead Time
Traditional Improvement Activities
VA
NVA
Minor Improvement
Waste Reduction
VA
NVA
Major Improvement
Time
This is "LEAN" - This drives transformational change!
QUALITY OF OPERATIONS DUE DILIGENCE

- Reduced manufacturing cycle time = **shorter lead times**
- Reduced manufacturing cycle time = **less WIP**
- Reduced manufacturing cycle time = **improved quality**
- Reduced manufacturing cycle time = **lower costs**
- Reduced manufacturing cycle time = **less inventory**

Shorter Lead Times + Greater Quality + Lower Costs

=

Increased Revenue, Greater Profits & Improved Cash Flow

Private Equity Firm: $550MM Fund

Company: $125MM platform seeking to acquire $100MM competitor (carve out)

Project Focus: Consolidate three (3) sites; transition from U.S. to Mexico

Approach:

- Enhance existing strong lean processes and tool box
- Develop integration plan capitalizing on operational core competencies
- Manufacturing transfer (>$100MM to Mexico)
- Limit disruption to core business/customers

Outcomes:

- 97% fill rate (within 2 days or order release on over 17,000 SKU's)
- $16MM EBITDA improvement ($25MM to $41MM) in 24 months
- Accelerated inventory reduction by more than $10MM in less than 6 months

One project led to >$100MM Enterprise Value Growth

	Business Strategy	Operational Plan			Supply Chain Strategy	Execution Plans
Process	Business Understanding	Core Competency Assessment	Manufacturing Strategy	Footprint Optimization	Sourcing Strategy	Execution & Control
Objectives	Capture strategy, customer / competitor / market information	Perform Core Assessment & align resources	Establish manufacturing strategy	Baseline assets & performance, select recommended footprint	Establish sourcing strategy	Develop detailed action plans, implement, & measure progress

Sourcing Current State

- Historical Performance
- KPI's / Metrics
- Benchmark Data
- SWOT Analysis
- Spend Segmentation

Macro Sourcing Objectives / Plans

- Talent / Organization
- Processes
- Globalization/ Rationalization
- Performance
- Working Capital Improvement Plans

Commodity & Supplier Strategies

- Spend Analysis
- Performance/Metrics
- Industry Trends
- Company Long Term Strategy
- Company Current Year Actions
- Supplier Strategies
- Cost Reduction Targets

CASE STUDY: Supply Chain Alignment Drives Results

Private Equity Firm: $750MM

Company: $150MM manufacturer of industrial products seeking to acquire $250MM competitor

Project Focus: Pre-acquisition due diligence – supply chain synergy & optimization

Approach:
- Identify supply chain cost saving opportunities through detailed data analysis
- Develop an overarching global supply chain strategy and integration roadmap

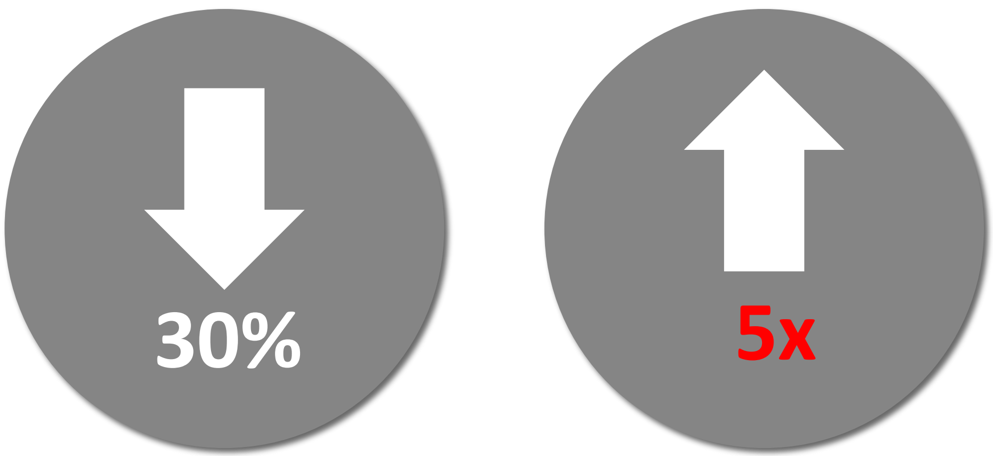
Outcomes:
- Validated integration potential of supply chain
- Identified $25MM EBITDA cost savings (collectively)
- Allowed for successful acquisition
- Currently engaged to implement global supply chain synergies and realize EBITDA

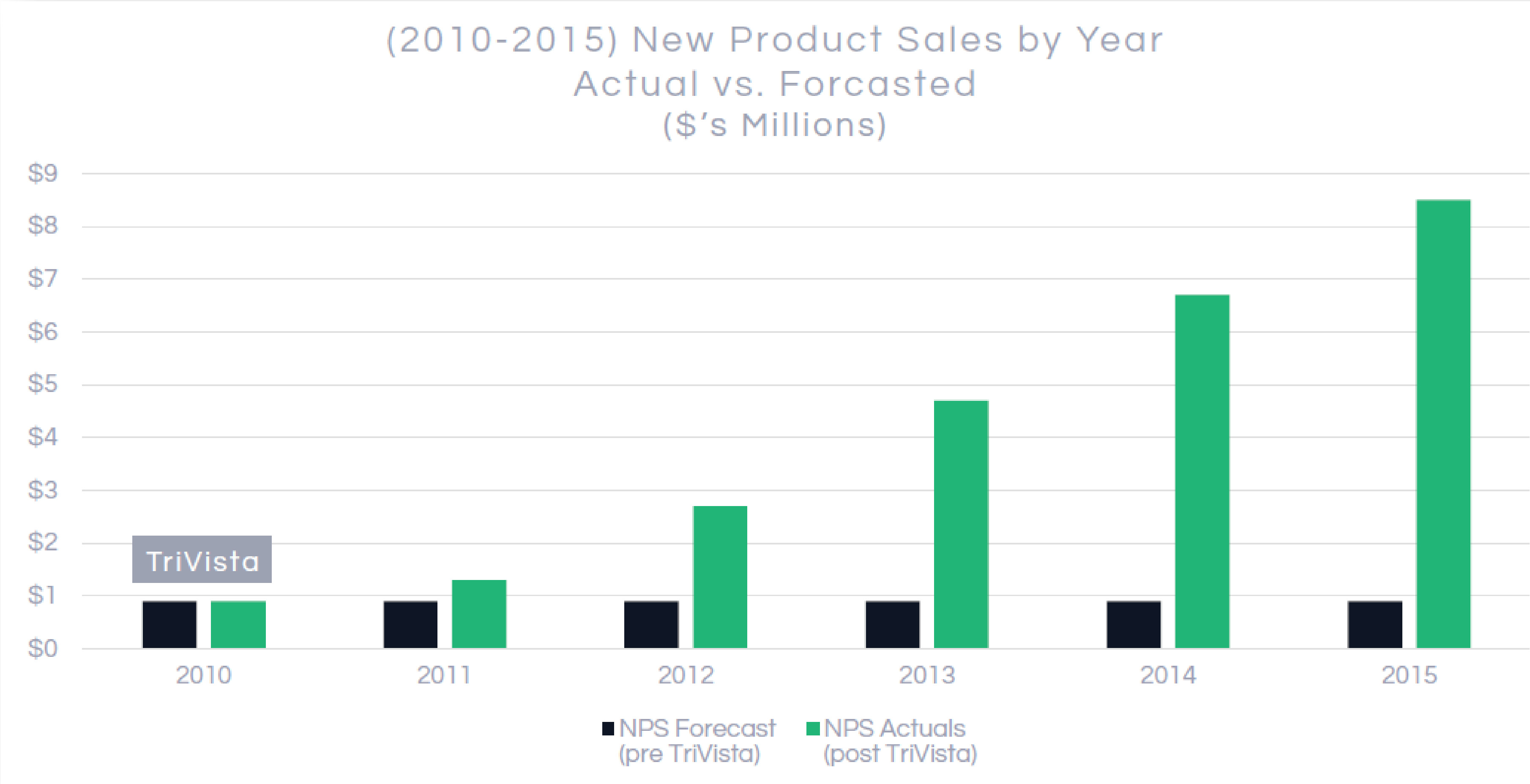
NEW PRODUCT DEVELOPMENT

- Inorganic growth will remain very expensive, but part of many PEG's strategies
- Organic growth via New Product Development (NDP) is the "golden ticket"
- Focus on NPD Process Improvements
  - Achieved through Customer Value Innovation and Portfolio Management

QUALITY OF OPERATIONS DUE DILIGENCE

- **The company:** $100 MM PE backed manufacturer
- **The initiative:** 6 months to re-align R&D process and metrics
- **The results:**
  - R&D investment as a percentage of sales reduced 30%
  - Increased NPS from 2% of sales to 10% sales in 3 years




(2010-2015) New Product Sales by Year
Actual vs. Forcasted
($'s Millions)
$9
$8
$7
$6
$5
$4
$3
$2
$1
$0
TriVista
2010
2011
2012
2013
2014
2015
NPS Forecast (pre TriVista)
NPS Actuals (post TriVista)

Company "A"

Revenue: $550 million
Product: Consumer (same as "B")
Inventory Turns: 3X
Average China Lead Time: 12 Weeks
E&O Inventory > 25% of Inventory
Low Cost Country Strategy:

- No forecast collaboration
- Inefficient NPD process
- No focus on supplier process capabilities
- If supplier does not provide the right price – they will move the production

EBITDA <10% with cash flow challenges

Company "B"

Revenue: $90 million
Product: Consumer (same as "A")
Inventory Turns: 7X
Average China Lead Time: 4 Weeks
E&O Inventory < 10% of Inventory
Low Cost Country Strategy:

- Bi-weekly forecast collaboration
- Detailed NPD kick-off meetings in China
- Suppliers selected based on process capabilities
- Formal Partnerships

EBITDA >15% with excess cash for debt payment

WHO IS TRIVISTA?

- A boutique global operational advisory firm
  - Trusted advisor to nearly 65 PE firms
  - Specialist service offering – focused on value creation and risk mitigation
  - Good bedside manner
- We focus on value creation and risk mitigation through
  - Quality of Ops™ Due Diligence
  - Performance Improvement
  - Top Line Growth
- Industry focus
  - Manufacturing, Distribution and Business Services models
  - Most industry subsectors ranging from Diversified Industrials to Consumer Goods/Food & Beverage to Aerospace and Defense

Thank you for attending our webinar.

To continue learning and access your complimentary **White Paper**, please go to: http://trivista.com/webinar-white-paper-qoo/

Enter the Password: WEBINAR2015

Click "Download Now"

Download should start immediately

TriVista

TIM RISTOFF
CEO & Managing Director
Tim.Ristoff@trivista.com