



This is a Story of a Private-Equity Investment and a 5X Return. It Includes a New Leadership Team, Strategic Acquisitions and Dramatic Operating Cost Reductions.

But Mostly it's a Tale of Human Creativity and What Can Happen When Management Shatters Historical Baselines and Raises their Expectations.

Client

A private-equity firm that acquired a controlling stake in a publicly traded manufacturing company with \$350 million in annual sales.

Challenge

The company was already growing steadily and comfortably profitable. But, as its stock-price appreciation ultimately revealed, there was massive potential for sales and earnings growth.

Solution

Conducted operational due diligence and post acquisition assessment. Reduced inventory, realized cost savings, built a lean management system, re-energized the culture, and enabled the company to make changes rapidly and laid the groundwork for future gains.

Results

The company was acquired for 5X the original stock price after 2 years, new management and several strategic acquisitions. Improvements made: \$1.5 million in operating costs, \$5 million in working capital reduction, lead time reduction from 17 days to 8 days.

Start with a world-famous founder with a variety of business ventures who builds a manufacturing company that produces and ships a quality product. Add competent management, expanding markets and a steady history of sales and earnings growth. That's pretty much everything you need for a company to continue to thrive, grow and turn a respectable profit.

As comfortable as such a formula is for owners and employees alike, it can still hold a business back from achieving its full potential.

Massively so, in some instances, as this case study demonstrates.

The story begins in the fall of 2010 when a private-equity firm that TBM works with on a regular basis acquired a controlling position in a midsized, U.S. manufacturer. The publicly traded company had reported \$350 million in annual sales and \$58 million in earnings in its most recent fiscal year. At the time it employed over 400 people at a single location, which included the headquarters office, the production floor, packaging and distribution.

During the operational due diligence, TBM advisers identified significant opportunities to improve EBITDA and working capital by analyzing core capabilities and comparing current production practices with best practices. On the positive side, the plant was well organized and well maintained, and order-fill rates were best-in-class (greater than 99 percent). The management team was experienced and worked well together. They also had a stable, long-term workforce that responded to gain-sharing and skills-development incentives. Purchasing was well managed, and inventory control was good.

"Like a lot of companies that aren't in the midst of a crisis, they were doing many things fairly well," recalls Gary Hoover, TBM Vice President. "But the owners, prompted by some recent market activity, were convinced that they were falling behind and weren't keeping up with their competitors."

The company lacked a clear vision and direction, and a lukewarm embrace of lean practices in operations and the supply chain created some major opportunities. Specifically, based on the due diligence analysis, total capacity could be doubled with minimal capital investment, and the entire footprint could support a 4X capacity increase. Better inventory management would free up millions of dollars in working capital. The potential EBIDTA benefit—stemming from higher machine utilization, better labor allocation and supply chain improvements—ranged from \$5 million to \$8 million per year.

Getting Down to Business

After the acquisition was final, the transformation began. To build a world-class management team, the private-equity firm brought in a new CEO from a much larger corporation. He hired new marketing, sales, legal and operations leaders. They ultimately replaced or created new positions for over half of the executives and senior managers. During the first 18 months the company also made two complementary acquisitions, one for \$40 million and the other for \$150 million.

To capture the targeted cost savings and inventory reductions, work on the operations side began with an initial assessment formulated by the management team with TBM's guidance. It included a thorough analysis of sales, costs and inventory. For example, when the team looked closely at inventory, then valued at \$37.3 million, they found that 22 percent was actually unusable and several quality assurance holds hold items were over a year old.

The management team then created a current-state value-stream map based on direct observations of production processes and material flow that helped identify improvement targets. To establish priorities they rated the opportunities based on impact and difficulty,

and incorporated them into a future-state map and a detailed go-forward plan.

Coming out of the assessment, management's high-level objectives were to improve labor productivity by 25-35 percent, double rawmaterial inventory turns, improve finishedgoods turns, and revamp the quality system to eliminate the need for 100 percent inspection of incoming material. Getting there would require the implementation of a hybrid build-to-order/build-to-stock model using pull-based (lean) methodologies, and establishing a robust sales-and-operationsplanning (S&OP) process that fully integrated input from the sales team and key customers. Other improvement activities included the introduction of visual management tools, improvements in machine utilization, scrap reduction and extensive employee training.

"On the soft side, they also wanted to establish internal operational improvement capabilities by introducing a continuous improvement management system and developing a lean program leader," adds Hoover. "I don't think anyone fully realized, after the tools and mindset had been fully introduced, how much pent-up creativity would be released among the employees."

This is a critical element of a sustainable business transformation that's often glossed over in turnaround stories. In part because the company was financially stable and growing, and their jobs weren't threatened, employees were open to trying new things.

Value Creation Timeline

EAR #1



September Due Diligence



October
PE Firm Acquires
Controlling Stake



November Operational Assessment





February New CEO

May New V.P. Operations

While the direction came from the top, the rapid execution of so many changes in such a short period of time depended on their full engagement.

The company's new V.P. of Operations lived by the tenet that the role of business leaders is to enable everyone to reach their maximum potential, and his job as a "servant leader" was to unleash and focus their energy and ideas. He instilled a culture of experimentation and problem solving (and acceptance of failure) that propelled people at the company to innovate and make value-adding changes. Coupled with some audacious goals, it's a powerful formula for maximizing the potential of any business. Such a culture can be created much faster than most managers think it can.

All told, in one 12-month period, TBM helped the management team and employees completely redesign the plant's work schedule, execute 25 cross-functional kaizen events, negotiate a new lease that reduced plant floor space by 85,000 square feet, manage 20 percent volume growth, significantly improve material flow, successfully integrate the two acquisitions, and save over \$2 million in hard costs, with another \$2 million in savings on the immediate horizon.

During this time, the operational improvements along with the management changes and acquisitions captured the attention of investors. The company's stock price first doubled and then really took off when several

Rapid Transformation

Actual Fiscal Year Savings (not annualized)

| • | Labor - Productivity improvement and overtime reduction |
|---|---|
| • | Yield improvement and scrap reduction \$260,000 |
| • | Quality testing efficiency\$55,000 |
| • | Sourcing, transportation utilities and maintenance |
| • | Inventory interest expense |

| Total | Del | Savings |
|-------|-----|---------|
| IOta | POL | Javings |

\$1,500,000

| • | Inventory | Reduction | | \$5,000,000 |
|---|-----------|-----------|--|-------------|
|---|-----------|-----------|--|-------------|

(assumes 5% cost of capital).....\$250,000

Total Benefit

\$6,500,000

Operational Metrics

Improvements

- Order lead time Reduced from 17 to 8 days
- Operating equipment efficiency +15%
- Incoming inspection lead time Reduced by 5 days



JuneComplementary
Acquisition #1

YEAR #3





April
Complementary
Acquisition #2



June
Operational
improvements show up
in annual financials

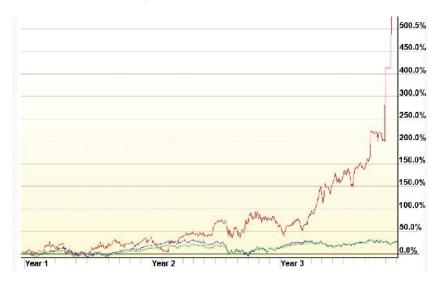


DecemberDivesture

large corporations made competing buyout offers. The private-equity firm ultimately realized a 5X gain on its initial investment.

Such financial gains—representing future potential as much as results achieved—offer a lesson for other businesses competing favorably in profitable categories with quality products. There might not be any incentive from current ownership or the market to make radical changes. But the opportunity for doing something extraordinary with human capital can generate tremendous value for management teams who aren't satisfied with average performance.

Three-Year Change In Stock Price



SPEED WINS EVERY TIME

TBM specializes in operations and supply chain consulting for manufacturers and distributors. We push the pedal down in your operations to make you more agile and help you accelerate business performance 3-5x faster than your peers.







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