

PRIVATE EQUITY SUPPORT OPERATIONAL DUE DILIGENCE

Wilson Perumal & Company

We help companies thrive in a complex world

- **Premier strategy consulting firm** with significant operations transformation experience, serving private equity, large corporate clients and the US military
- Unique focus on complexity: helping companies simplify for profitability and better compete and grow in increasingly complex environments
- Value-oriented: with focus on profit, growth and working capital outcomes; results frequently yield a 20-40% improvement in EBITDA
- **Thought-leadership:** authors of leading books, *Waging War on Complexity Costs* and *Growth in the Age of Complexity* (McGraw-Hill)
- Track record creating value in PE: unique analytics enable differentiated insights in due diligence and identification of opportunities for significant EBITDA growth



Executive Summary

- WP&C's approach to diligence includes unique analytics that unlock more aggressive valuecreation plans and inform the deal valuation
 - Our Square Root Costing methodology (SRC) builds a rapid view of true product and customer profitability and tees up opportunities on pricing, operational improvements, and EBITDA lift potential
 - In combination with our Operational Capability Maturity Assessment, we identify grounded hypotheses for rapid improvements and a target EBITDA improvement plan, which we then launch Day 1 post-close

• Operational Due Diligence (ODD) adds welcome certainty to your deal thesis

- Commercial and Financial Diligence are necessary but insufficient areas of pre-deal investigation
- With median holding periods falling, increasing the speed and magnitude of value capture is critical to achieve target valuations—an operations transformation plan adds an element of certainty by identifying tangible improvement levers not dependent on growth-based assumption
- Our approach typically leads to 20-40% improvements in EBITDA and 15-25% reductions in working capital within 12 months

• We add value through our analytics, and then by rapidly executing improvement actions

- In ODD, we identify practical opportunities across complexity reduction, operations improvements, and operating model simplification through the use of our proprietary Operational Capability Maturity Assessment and develop a target EBITDA plan to drive execution
- Post-close, our team, with deep operations/execution experience, works with your portfolio company to
 a) immediately launch *Quick Win* improvements and b) capture the full EBITDA opportunity

Insightful Due Diligence + Aggressive EBITDA Targets + Hands on Execution Support = 20-40% EBITDA improvement in 12 months

Our Operational Due Diligence approach is additive to traditional diligence and ensures value capture

We quickly identify risks and have a greater focus on the path to value creation



• New go-to-market opportunities

CapEx and OpEx investment requirements

We better ensure, accelerate, and maximize downstream returns

Three coordinated workstreams form the basis of our ODD approach



This work can be completed onsite and/or remotely

Complexity-adjusted Costs – Square Root Costing

Determine complexity cost drivers to understand true profitability



Square Root Costing (SRC) is WP&C's proprietary methodology to account for cross-subsidization and correct for skewed views of profitability

Portfolio Complexity – 5-Facet Analysis

Unlock value in the portfolio by looking at the roles & contributions of all products



- How does the portfolio leverage competitive advantage?
- How well does the portfolio align with strategy?

Operations Performance – End-to-end Assessment

Identify and plan for biggest EBITDA improvement levers, including 'quick wins'



Using our *Operational Capability Maturity Assessment*, we take a hypothesis-based approach to ops improvement to move more quickly to what will "move the needle"

The Operational Capability Maturity Assessment identifies critical value opportunities through a comprehensive scan

Our team of operations experts executes the assessment, identifying gaps and solutions

Scalability	Production	S&OP	Overhead	OEE/ Capacity	Supply Chain	
Supply Chain	R&D	Forecasting	NPD Commercialization	Labor Skills	Demand Planning	
S&OP	P&E Layout	Demand Planning	Engineering	Labor Scheduling	Supply Planning	s s
Production	Equipment Capability	Supply planning	Manufacturing capability	Performance	Source v. Make	Process
Engineering	Manufacturing Process	Plant Scheduling	Material Availability	Changeovers	Vendor Contract Review	2
IT	Tools	Labor Scheduling	HR	Material Availability	Transport Contracts	
QA/QC	Lean Capabilities	MRP	Management Review	Maintenance WO System	Vendor On-time Delivery	
Process Flow	Visual Controls	Inventory Location	Maintenance	PM System	Quality of RM	
Ops Strategy	Planning	BOMs/Routes	QA	Maintenance Performance	Manufacturing Capability	
Organization	Execution	Line Balancing	QC	Work Standards	Warehousing Inventory Turns	8
Bench Strength	Reporting	Process flow	Environmental	Scrap	Warehouse Cap Utilize	Performance
Equipment	ERP Systems	Workflow	Continuous improvement	Organization	Order Lead Time	rfor
Facilities	Plant Capability	Analytic Batch Sizing	Management System	Inspection	Expedited Shipping	P
Labor Skills	Productivity	Inventory Accuracy	Labor Dir/Indir	Availability	FG On-time Delivery	
Quality	Efficiency	Scrap	Turns	Downtime	FG In-full Delivery	
Maintenance	Labor Reg, OT	RAW & WIP	Dir/Indirect Labor	Set-ups	Quality/ Mis-pick Returns	
Forecasting	Ops Strategy	Ops Strategy	Strategy	Ops Strategy	Ops Strategy	
Capacity Utilization	Planning	Availability	Mission, Vision, Values	Availability	Plan	۲ ۵
Demand Planning	Organization	Labor	Functional Capability Goals	Labor	Sourcing	Strategy
Supply Planning	Feedback	Maintenance	HRO	Maintenance	Make	st
Inventory Management	ІТ	Quality	Risks	Quality	Customer Responsiveness	

An overall view of operations quickly focuses on areas of strength and opportunity...



...followed by deep dives in areas of opportunity to refine hypotheses and identify improvement actions



Our Operational Capability Maturity Assessment covers 6 core areas and 91 unique underlying processes and performance measures

Our flexible and scalable due diligence support model accelerates transformation and the path to value creation

Typical Diligence Support Timeline

1-2 WEEKS	2-3 WEEKS	8-16 WEEKS	2-12 MONTHS				
Baseline & Preliminary Hypotheses	Opportunity Deep Dives & Hypothesis Confirmation	Post-Close Transformation Ops Transformation, Portfolio Optimization, Operating Model Redesign, Go-to-Market Strategy	Achieve Target EBIDTA Run Rate				
Square Root Costing (SRC) 5 Facet Portfolio Analysis Ops Performance Management							
 Baseline & Preliminary Hypotheses Objectives Through Ops Assessment*, interviews, data analyses, observations, develop understanding of: Complexity drivers & impact Portfolio roles & contributions Operational performance Root causes of poor performance Develop initial opportunity hypotheses 		 Transformation Objectives/Outcomes Align with deal team and management on improvement priorities, resources, expectations Finalize improvement actions (portfolio, op model, operations, GTM, etc) & associated EBITDA/WC/ operational benefits, effort, strategic alignment Develop road map to value creation—identifying passive and action cost-outs and plans to capture 	Ongoing monitoring & reporting of				
hypotheses; deepFocus ops analyse	SRC model & product/customer o dives on target SKUs/categories es on target areas he prize and implementation/	 Assemble internal resources & owners; train and coach them to help drive implementation Establish project governance & reporting cadence Kick-off and drive 'quick win' opportunities to completion and value capture Identify and incorporate additional opportunities 	performance to plan				

Whether onsite or remote, WP&C ODD approach provides expanded insight with each step



INITIAL HYPOTHESIS

- Advance site visit
- Initial hypotheses and areas of focus
- Activities Data & interview requests development
 - Preliminary SRC modeling
 - Preliminary operational assessment
 - Preliminary SRC profitability analysis
- *Outputs* Initial hypotheses
 - Data & interview requests



- Discovery sessions/workshops with SME's to validate and analyze data
- Validate and adjust cost allocation assumptions for advanced SRC model
- Interviews, tours, observations for Ops Capability Maturity Assessment
- Portfolio opportunities identified— SKU, category, customers
- Engineering, Manufacturing, and Supply Chain opportunities analyses



- Refined hypotheses and findings
- Category & 5-facet review
- Size-of-the-prize, opportunities workstream plan, quick wins development
- Complete Ops Assessment
- Ops Capability Maturity Assessment
- Finalized SRC model outputs
- Finalized operational assessment
- Improvement roadmap & workplans



Wilson Perumal & Company, Inc.

Sample Outputs* – our analysis reveals opportunities for value creation not attainable through traditional diligence

Category-SKU *Walk Down* identifies value drivers in the business



Complexity-adjusted SKU profitability *Whale Curve* shows profit concentration/distortion



Revenue density, as a proxy for complexity, provides initial direction for category focus



Operational Capability Maturity Assessment reveals areas of excellence/opportunity



*sanitized results from an operational due diligence project for a leading US private equity firm in the nutritional supplement industry

20-40% EBITDA improvement in less than 12 months

	TYPICAL TRANSFORMATION HYPOTHESES	ACTIONS TO REALIZE BENEFIT	TIME TO FULL VALUE	100-DAY POTENTIAL
1	Improve EBITDA by optimizing SKU, category, and customer portfolios	 Align customer service levels with customer value; stop overserving low-value customers Adjust pricing to align with costs & customer value Exit unprofitable markets and/or channels Rethink Make v. Buy and Make-to-order v. Make-to-stock Rationalize/repurpose SG&A support, footprint, and inventory Focus sales & marketing on profitable core products 	6-12 months	
2	Improve EBITDA by consolidating SKUs to address production- and customer-driven complexity costs	 Develop "profit pools" by product category Consolidate products with high substitutability Simplify SKU variation (size, color, flavor, etc) Rethink margin-neutral products—rationalize or reprice Eliminate unprofitable products/segments & associated costs Commonize platforms/raw materials Address portfolio gaps 	6-9 months	
3	Improve EBITDA by optimizing operations and realigning with revised portfolio	 Reduce complexity across entire value stream Design E2E S&OP process on top of current planning process Run batch optimization scenarios to determine best production schedule strategy Implement shop floor production system & Lean tools Enhance Leadership & Supervision effectiveness Align Labor utilization and skillset with demand Identify and operationalize automation opportunities 	6-12 months	

Transformations are designed to be self-financing within year of execution and return >300% ROI within 2 years

WP&C's team members bring years of real-world operations experience

Select members of the WP&C Team



Stephen Wilson, Managing Partner

- Founder and managing partner of WP&C
- Co-author of "Growth in the Age of Complexity", and "Waging War on Complexity Costs"
- Extensive portfolio simplification experience
- MBA in Finance and Strategy from Wharton



David Toth, Partner

- 20+ years industry, consulting, and entrepreneurial experience across telecom, food services, and retail
- Operations due diligence experience with PE clients in the US and Europe
- BS/MS Industrial Engineering, Purdue



Scott Stallbaum, Manager

- Deep project experience applying WP&C's SRC and portfolio optimization methods across industries
- Former mfg engineer & product launch mgr at Ford; manufacturing leader in med device industry
- MBA, Harvard Business School; BSME, Bucknell



Kristine McCarthy, Consultant

- Extensive experience implementing operations improvements (large corporate and PE-owned comp.)
- Led rapid ops transformation for US footwear manufacturer–drove down costs, scrap, late shipments
- BS, Buffalo State College



Hundley Elliotte, Partner

- Significant large-scale operations transformation experience
- Prior Interim CEO in PE consumer Apparel company
- Co-author of Building High Performance Government
- MBA in Marketing and Finance, Indiana University



Colm Hendrick, Manager

- Senior executive focused on operational performance & business transformation
- Successfully completed 100s of operational assessments, restructurings, business turnarounds
- University College, Cork, Ireland

Mel Lager, Senior Consultant

- Expertise in business transformation & culture change
- Former c-level manufacturing leader with significant operations & turnaround experience with Alcoa, Alcan, and Cargill
- MBA, Duke University; BSEET, Point Park University

Cody Hostuttler, Consultant

- Focus on operations optimization, manufacturing leadership, and business transformation
- Former engineering manager & operations acceleration program manager at Nestle Purina
- MBA, Olin School of Business; BSIE, WVU



WP&C has significant experience helping portfolio firms identify and capture profitability and growth opportunities

Sample PE-sponsored projects and outcomes:

For **a high-tech product provider**, assessed current operations as well as customer & product profitability to assess ability to meet 2x revenue target and grow profit margin; found over 40% savings. Assessed and redesigned warehouse and manufacturing workspace and process flow to reduce labor costs and backlog.

For a **home-based behavioral health provider**, increased clinical fulfillment by >18% in 2.5 months via quick wins while working to transform clinical operations to gain an additional 20% improvement, targeting 2x EBIT improvement.

For a **global clinical research organization (CRO**), supported rationalization of therapeutic areas while rethinking op model, resource planning, and performance management for late phase trials. Helped overcome \$5M EBIT shortfall to realize best year in terms of profit and revenue.

For a **construction materials manufacturer**, reevaluated profitability in its 3 divisions. Transformed front-office and go-to-market approach of all 3 to target +25% EBIT improvement (Exec team sign-off with BOD). Very successful exit ~9 months later.



CONTACT US

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CASE STUDIES

Complexity Costing for a Major Beverage Company Portfolio Optimization at a European Food Company Restructuring for Growth at a Tech Company Assessing Complexity at a Powersports Vehicle Company

RESOURCES

Square Root Costing: Revealing the Cost of Complexity Customer and Product Profitability Overview Cost Reduction Overview Operating Model Redesign Overview