THE PROACTION GROUP LLC

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Thank you for stopping by The ProAction Group table! This packet will help you evaluate how to use ProAction to learn the things you want to know before you buy a company, and how to use ProAction to help you accelerate your path to realizing your strategic goals.

This packet includes:

Item	Description
Cover and Table of Contents	
Product Summaries	Product Summaries Covering ProAction's Pre-Close Diligence and Post Close Execution Services
Case Study: Diligence to Exit 1	Case Study following our Pharmaceutical Packaging client, from pre-close diligence to post-close execution and finally to the sale of the company.
Case Study: Diligence to Exit 2	Case Study following our National Paint Distributor client from pre-close diligence to post-close execution.
Case Study: Diligence to Exit 3	Case Study following our Heavy Duty Equipment Manufacturing client from pre-close diligence to post-close execution through the sale of the company.
Case Study: Lean Manufacturing Implementation	Case Study following this Chocolate company and the impact that our implementation project had on operations and EBITDA.
Case Study: Sales and Operations Planning Implementation	Case Study following this food services client and the impact of our Sales and Operations implementation project.
Indicators of Opportunity	The following indicators show the items we look for in our initial due diligence site visits. If you find any of the following indicators, your company has the ability to make meaningful improvements in variable costs and EBITDA.

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Product Summary: Pre-Close Diligence

An effective Due Diligence Process addresses company strategy, human resources and organizational development, leadership, IT, and core operating functions.

ProAction's Role:

- Assess the Company's overall "Operational Effectiveness" and management's ability to execute on its strategic plan (Scalability / Depth of Infrastructure / Quality of Systems).
- Identify and Quantify Opportunities to Increase EBITDA and Reduce Working Capital.
- Identify and Quantify hidden risks and opportunities in the operations and management processes.
- Assess, Document and Quantify opportunities for the Private Equity firm and its Financing Partners (Validate the investment thesis, from an operational perspective).

Areas we Test / Hypotheses we Test and Quantify:

Increase in EBITDA	Improve Balance Sheet/Cash Flow
• **Throughput** • **Improve Processes** • **Fixed & Variable Expenses** • **Product Pricing** • **Asset Utilization** • **Risk Reduction**	• **Shrink the Order to Cash Cycle** • **Improve Inventory Management** • **Increase / Speed Collections** • **Minimize Unnecessary Capex**
Enhance Competitive Position	**Address Gaps in Investment Thesis**

• **Scalability**
• **Lead times**
• **Flexibility**
• **Time to market**
• **Quality**
• **Cost structure**
	• **"Enterprise Risk"**
	  – **Including IT**
	  – **Operational Disaster Recovery**
	• **Skills Assessment of Organization**
	• **Organizational Development Needs**

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Product Summary: Post Close Execution

After you acquire the company, ProAction can help you accelerate your path to realizing the company's potential. Below we summarize our Core Capabilities, and What We Do!

Core Competencies:

Manufacturing Operations	• Lean enterprise / Lean manufacturing • Outsourcing / asset rationalization • Quality systems and process • Inventory and materials management • Value Engineering
Supply Chain Operations	• Strategy development • Supplier development • Asia / global • Logistics (freight, warehousing and planning)
Sales & Operations	• Pricing strategies, processes and disciplines • Customer and product profitability • Channel strategies and management • Sales & operations planning (S&OP) • Product development process

What We Do:

Transform Management Goals into Actionable Initiative

- **Detailed project plans focused on tangible results**
- **Quantification of costs and benefits**

Identify Opportunities Management Doesn't See

- **Best ideas from multiple industries and experiences**
- **Assessment model and other analytical tools**
- **Third party perspective**

Drive Execution through Resource Extension

- **Experienced people**
- **Proven methodologies, tools, and templates**

Accelerate Results

- **Project leadership experts**
- **Dedicated resources working with management**

Transfer Capabilities, Knowledge and Tools

- **Sustainability of gains**
  - **Education & Training**
  - **Metrics**

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Find the "hidden" EBITDA and Win the bid
Capture it and recover invested capital early
"Hidden" Operational Improvements Drive 50% Increase in EBITDA In 6 Months…

Background

Pharmaceutical Packaging Company

- **Long production Lead Times; Significant Past Due Back Log**
- **Complacent, Uncompetitive Suppliers**

The company, a leading international provider of pharmaceutical packaging solutions, focused on the long term care, retail and nutraceutical markets.

ProAction conducted the operational due diligence pre-close for its Private Equity client who was engaged in a competitive bidding process for the business.

Our tasks:

- Uncover and quantify any EBITDA improvement opportunities beyond those identified by management and the PE client
- Identify any hidden risks that would prevent the company from realizing their stated plans

We were successful on both counts.

- The "Hidden" Improvements in EBITDA and Working Capital Improvements: We quantified just over $1 million in EBITDA improvements, and $1.25 million in inventory reduction.
  - These improvements primarily stemmed from 2 opportunities. The first related to lean manufacturing and scheduling opportunities in the plant. Their current approach to running the plant resulted in a significant past due backlog, high overtime costs, and late deliveries. The second related to their sourcing strategy and supply base. We found that they had no clear sourcing strategy and were laden with long term and untested suppliers.
- The Risk: The company's IT system was stable, but not scalable. It was built on a set of 5 connected legacy systems and would likely need to be upgraded or replaced prior to a sale to a financial buyer.
  - Given company plans for organic growth, the system would be fine for 3-5 years. We estimated the cost to implement a new system and the sponsor incorporated this into their financial model.

Our client used our information to update their model and our presentation to educate the lenders on the assumptions and evidence of the opportunities. With these enhancements incorporated into their offer, our client won the auction and acquired the company.

Actions Taken

- **Led Lean Transformation**
- **Developed the Inventory Strategy**
- **Created and Implemented production scheduling tool and approach**
- **Developed and implemented sourcing strategies for 6 key commodities**

Post close, the company retained ProAction to work with management to implement the improvements identified during diligence. We led the company through the value stream mapping process and, together, created the road map. Key parts of the implementation phase included:

- Developing and implementing actionable sourcing strategies for six (6) different commodities.
- Creating a lean scheduling methodology/process for strategic stocking levels and delivery improvement.
- Running kaizen and other improvement events, teaching the plant personnel to conduct root cause analysis and take corrective action (we taught the organization how to improve habitually on their own)
- Providing training on Lean Methods Tools to management and operators.

Measurable Results

- **$2 million increase in EBITDA**
- **Gross Margin increased 4.8%**
- **Product Margin increased 7.2%**
- **53% Reduction in Overtime**
- **20% increase in Capacity**
- **On Time Shipments improved to 95%**
- **Net Improvement – 50% Increase in EBITDA**

As a result of these actions, annual EBITDA increased by $2 million, or 50%, in six months. The better news, however, is that this financial improvement was accompanied by increased service levels, reduced stress in the plant and a 20% increase in effective capacity. During this period, the top line remained steady.

Within 18 months of acquiring the company, our Private Equity client refinanced and took their money off the table. Within 36 months they monetized the investment and netted a strong return, all without a meaningful increase in the top line of the company.

For Further Information

Timothy Van Mieghem
The ProAction Group, LLC
150 North Wacker Drive
Suite 2500
Chicago, IL 60606

Tel: (312) 371-8323
tvm@proactiongroup.com
www.proactiongroup.com

About The ProAction Group

The ProAction Group helps private equity firms increase investment returns by providing variable operating resources. Pre-acquisition, we quantify risks and opportunities, helping clients refine valuations, avoid bad deals, and prepare post-deal value creation plans. For portfolio companies, we work with management to identify and implement high-impact revenue growth and profit improvement initiatives. We focus on four sectors: consumer products, manufacturing, distribution, and business services. We have experts in marketing, sales, manufacturing, supply chain, and human capital development. We were founded in 1995 and are headquartered in Chicago.

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"Hidden" EBITDA found in Due Diligence

Yields $4.5 million improvement in EBITDA and $3.5 million in Working Capital in Year 1

Background

National Paint Distributor

"Hidden" opportunities Identified during Diligence:

- **Sub-optimize labor staffing causing 20+% non-conformance in "on-time" order fulfillment.**
- **Inventory $4 million higher than needed**
- **Inefficient warehouse "footprint". Too much space; inefficiently laid out.**
- **Inefficient Warehouse management. Improvements could increase capacity 30% and reduce labor costs by over 20%**
- **Freight and Sourcing negotiations would reduce inventory further and increase EBITDA by $1 million or more**

The company, a leading national paint distributor, had expanded to 8 distribution centers in recent years. ProAction conducted the operational due diligence pre-close for its Private Equity client who was engaged in a competitive bidding process for the business.

Our client asked us to uncover and quantify any EBITDA improvement opportunities beyond those identified by management and the PE client. We found the following:

- Current warehouse management and staffing issues limited the number of orders that could be filled on a daily basis, driving up overtime and staffing, and reducing on time delivery.
- Inventory planning and sourcing inefficiencies further drove down order fulfillment and customer service levels.
- With improvements in warehouse management, the company could close 2 facilities and shave over 140,000 square feet in a 3rd.
- The current sourcing and freight strategies were developed much earlier in the company history and did not take advantage of current leverage and available resources.
- In total, we identified $3 million in EBITDA improvements, $4 million in working capital reductions, and opportunities to increase customer service levels from 80% to over 95%.

Our client used our information to update their model and our presentation to educate the lenders on the assumptions and evidence of the opportunities. With these enhancements incorporated into their offer, our client won the auction and acquired the company.

Actions Taken

- **Eliminated 2 DC's and reduced a 3rd by 140,000 sq feet with improved service levels**
- **Implemented Lean approaches in warehouse operations**
- **Negotiated new contracts**

Post close, the company retained ProAction to work with management to implement the improvements identified during diligence over a 6 month period. Key parts of the implementation phase included:

- Implemented inventory planning and system improvements.
- Implemented lean manufacturing process improvements in picking, material handling and quality control.
- Led the process to consolidate 4 locations into 2, and to reduce space in a 3rd location by 140,000 square feet
- Designed and implemented key metrics and taught plant personnel to perform root cause analysis and to take corrective action. This enabled management to implement a continuous improvement culture led by those directly involved in running the plant day to day.

Measurable Results

- **$4.5 million increase in EBITDA**
- **On Time Delivery increased from 80% to over 95%**
- **Reduced space utilized and leased by 250,000 sq feet**

As a result of these actions, annual EBITDA increased at a $4.5 million run rate within 6 months ($1.5 million more than projected). These results emanated primarily from:

- Facility and space consolidation
- Lean manufacturing process improvements
- New freight agreements and suppliers
- Improved planning and inventory strategy
- During this same period, inventory was reduced by $3.5 million

Just as important, they also realized a dramatic increase in on time delivery, reaching 95% within 6 months of taking action.

For Further Information

Timothy Van Mieghem
The ProAction Group, LLC
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Suite 2500
Chicago, IL 60606

Tel: (312) 371-8323
tvm@proactiongroup.com
www.proactiongroup.com

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Lean Transformation Enables Smooth Product Launches and Drives EBITDA Improvement

Background

Equipment Manufacturer

- **New Product Launches**
- **Plant Layout Change**

There would be no "snow days" in the forecast for a leading manufacturer of plowing and spreading equipment. The company was preparing to integrate a new acquisition and to launch two new products. To accommodate this growth, a major layout change and freeing up floor space was required at one of its facilities. Despite a lean effort for over a year, the plant's performance was lagging behind the company's other sites.

Actions Taken

- **Led Lean Transformation**
- **Guided Product & Production Preparation Process**
- **Supported Strategic Planning**

The ProAction Group reinvigorated the Lean transformation effort at the client's plant with a hands-on application of Lean tools. We employed Value Stream Mapping to assess the opportunity and then began eliminating waste in the facility. The team used 5S, Visual Management, and Takt Time Management to streamline operations. Quick Changeover and Total Productive Maintenance were implemented to minimize downtime. We introduced metrics which allowed the plant to manage for daily improvement in its processes, including first-pass Standards of Work which eliminated costly re-work.

We led the Product & Production Preparation Process which ensured a timely and successful launch of the new products. The team employed a Design for Value approach with a focus on quality. We optimized the arrangement of people, machines, materials, and methods to maximize work flow and minimize waste.

ProAction also supported the client in constructing their strategic plans. We guided the roll-out of Lean practices across the entire enterprise. We conducted organizational capabilities assessments and recommended staffing changes. We also recommended sourcing activities to support the company's expected growth.

Measurable Results

- **14% Labor reduction**
- **25% Free floor space**
- **Successful New Product Launch**

The Lean transformation put the plant back on track to meet performance expectations. We reduced the labor cost by 14%. Changing the plant's layout improved the work flow by 32% and reduced the occupied manufacturing area by 25%, freeing up space for the production of its new products.

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Suite 2500
Chicago, IL 60606

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Focused Lean Project Improved Earnings by $1.5 M

Background

Chocolate Manufacturer

- **Cost Reduction Effort**
- **Space Constraint Hindered Efforts to Acquire a Business and Absorb into Current Plant**

A solid player in the chocolate industry had recently negotiated a long-term agreement with a major customer and was engaged in executing a diversification strategy. These distractions took focus away from the core business, and cost increases began to erode profits. Management hired an outside firm to consolidate US and Canadian operations in an effort to control costs. When the capital outlay proved to be prohibitive, the company engaged The ProAction Group to lead its Lean effort and unlock cost savings. In addition, the company had the opportunity to acquire a related business that would add important growth and diversification.

Actions Taken

- **Mapped Value Stream**
- **Implemented Lean Program**
- **Created Tracking Metrics**
- **Consolidated Operations**

Using Value Stream Mapping, the ProAction team quickly assessed the current state of operations and identified a preferred future state. Bridging the gap required the use of numerous Lean methods including Kaizen events, 5S, Quick Changeover, Visual Management, and Total Productive Maintenance. Equipment downtime was a significant drain on operations, which we targeted with a Six Sigma project. We eliminated waste by changing the line layout to improve product flow. Most importantly, we developed a series of metrics to monitor improvements and track cost reduction.

The ProAction team reduced work-in-process inventory and removed obsolete equipment to free up existing floor space within the company's operations. As a result, the company's Canadian operations were absorbed into its US operations without the large capital expense previously assumed. The additional space also enabled the company to acquire and integrate a strategic player, which increased revenue by more than 50%.

Measurable Results

- **$1.5 M Increase in EBITDA**
- **$2.4 M Decrease in Working Capital**
- **Measurable Operational Improvements**
- **Consolidated 3 Plants into 1 Existing Facility**

The focused Lean initiatives had a striking impact:

- Output improved by 75%
- Equipment uptime (OEE) increased 50%
- Labor was reduced by 20%
- Scrap rates decreased by 15%
- Changeovers went from 5 hours to less than 30 minutes

Cost reductions added $1.5 M to EBITDA. Improved inventory management reduced working capital by $2.4 M. The increased production also allowed the company to fulfill a 60-day demand surge with a key customer, adding $0.75 M in additional margin.

For Further Information

Timothy Van Mieghem
tvm@proactiongroup.com
The ProAction Group, LLC
150 North Wacker Drive
Suite 2500
Chicago, IL 60606

Tel: (312) 726-6111
Fax: (312) 726-2666
www.proactiongroup.com

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Sales and Operations Planning – $2 Million Inventory Reduction, Eliminated Late Deliveries & Excess &Obsolete Inventory

Background

Food Service Manufacturer

- **Corporate Spinoff**
- **Inventory "Out of Control"**
- **Poor Service Levels (85% on time delivery)**
- **Excess & Obsolete Grew to 5x Normal Levels**

A crafter of premium hors d'oeuvres and small plates for hospitality and food service distributors. Their products are hand crafted and created from original recipes based on extensive market research and the latest market trends. Client's products can be found throughout the United States.

Client recently had been spun off from a larger, global corporation and no longer had the structure and support of the parent company. Inventory levels ballooned to 5 times prior levels, excess and obsolete inventory grew dramatically and delivery performance fell to 85%.

Actions Taken

- **S&OP Assessment and Implementation**
- **Lean Manufacturing**
- **Block Scheduling**

The ProAction Group led the management team and implemented the foundational elements of an Executive Sales and Operations Planning process, teaching the group to improve delivery performance while controlling working capital and obsolescence. As part of this, we:

- Implemented a series of stabilization activities including; daily delivery meetings, ERP planning parameter reviews, and inventory segmentation analysis.
- Provided specific training on the S&OP process and responsibilities.
- Re-implemented demand planning software.
- Defined the current and future state process and associated gap plan activities needed to create an S&OP foundation.
- Facilitated the client team through the development of the S&OP process and their first monthly cycle of meetings.

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Measurable Results

- **On Time Deliveries increased from 85% to 97.5%**
- **E&O Inventory dropped by 70% within 5 months**
- **$2 million inventory reduction**

The stabilization efforts essentially eliminated their pain points. Within 60 days, On Time Shipment improved from 85% to 97.5%. We reduced the creation of new Excess and Obsolete inventory by 70% within five months.

The rough cut capacity and resource planning tool allowed the client team to achieve year their year-end inventory goal as they reduced inventory by over $2 million vs. prior periods.

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Timothy Van Mieghem
The ProAction Group, LLC
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Suite 2500
Chicago, IL 60606

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tvm@proactiongroup.com
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Indicators of Opportunity

The following indicators show the items we look for in our initial due diligence site visits. They represent the smoke that lets you know there is a fire. If any of the following are true, your company has the ability to make meaningful improvements in variable costs and EBITDA. Period.

Indicator	What it can mean
The company does not maintain a closed-loop metric system. The company does not post visible metrics.	If you can't measure something, it doesn't exist. This may seem to be a strong statement, but it is hard to overestimate the impact of measuring performance, conducting root-cause analysis, and implementing corrective action. Companies that do this show continuous improvements. Companies that don't will go backwards. No one stays stagnant – you either get better or you get worse. We often see a 10- to 15-percent improvement in performance when we start effectively measuring it.
No defined sourcing strategy.	For many manufacturing and distribution companies, the cost of purchased goods and services is 60 to 80 percent of the cost of goods sold. Yet, much of this spend is set up and managed by relatively low-level clerks and untrained buyers. If a company does not have documented sourcing strategies, it is an indicator that there is significant opportunity to better utilize their leverage with suppliers.
Sourced materials have not been competitively bid in the last three to five years.	Perhaps counter intuitively, we have found evergreen (ongoing) contracts to indicate that the company does not test the market and leverage their volume and position to their full advantage. Some companies do put specific and narrow needs out to bid. Either of these signals potential to improve the cost of goods purchased and related items.
The company does not measure supplier performance.	In a tightly run plant, suppliers have to deliver exactly what is needed when it is needed. No room for inspections, late deliveries, inaccurate picks, or defects. Companies that do not maintain a closed-loop system on supplier performance cannot maintain a high level of performance.
Sourcing agreements are not documented or are limited to pricing terms (excluding issues such as order management, inventory management, hedging, allocation, future pricing, etc.)	Regardless of who you are and how big your company is, your suppliers' resources dwarf your own. Effectively negotiating with your suppliers sets up your ability to leverage their resources to your benefit. If the company limits their negotiation to pricing terms, they are missing out on significant value. If the agreements are not documented, it is another sign that sourcing needs further investigation.
Inbound freight costs are buried in product costs.	A common answer to "Who pays freight on incoming shipments" is, "Oh, well, freight is free." We often find that suppliers build profit into freight charges. Unbundling freight costs can lead to significant improvements.
Schedule attainment is not measured.	One of the first questions we ask a plant manager during a tour is, "How are things going?" If they respond, "Great, all the machines are running" or "Our efficiencies are well over 100 percent", then we know they are likely scheduling the plant based on a "push" methodology. There is a good likelihood that they are building schedules to minimize changeovers and downtime. Measuring schedule attainment is most common among higher-performing companies that run the plant to fill customer orders or on some type of pull system.
Invoice accuracy/denials/ chargebacks are not measured or tracked.	Credit memos, chargebacks, denied claims, and inaccurate invoices all show potential buckets of improvement. If the company does not actively track and measure these items, it is unlikely that they are well managed.

Indicator	What it can mean
E&O reserve is insufficient to cover actual levels.	Excess and Obsolete inventory is a target-rich area. Any of the following situations can indicate that the company can reduce the amount of E&O inventory it creates through ongoing operations: • The company does not measure or track E&O. • The company does not perform root-cause analysis and corrective action processes on E&O. • An aging of the inventory shows balances in excess of one year that exceed reserves.
Forecast is not measured or is low quality.	Often, companies that do not have the discipline to forecast well put unnecessary burdens on operations. These burdens lead to E&O inventory, overtime, downtime, expediting costs, and chaos. If forecast accuracy is low or not measured, the company is likely not managing this area effectively.
Service levels are low.	There are rare instances that require a company to provide poor service and quality levels to their customers. If a company does not have an industry-leading perfect order level, has longer lead times than competitors, or has high scrap/warranty costs, then there is likely a significant opportunity to improve operations and EBITDA.
Service levels are buoyed by high inventory levels.	One easy method to lift service levels is to increase inventory. This approach, however, leads to many costs and problems. If a company has competitive service levels, but holds more inventory than others in their industry, there is opportunity.
Significant work in process (WIP) and overproduction.	Work in process may not be evil, but it is close. When we tour any factory or office, we look for WIP in front of machines, in warehouses or in inboxes in the office. Any of these can indicate unbalanced lines and processes. Putting lines and processes into balance leads to cost, service level, inventory, and lead-time improvements.
The company has not conducted a value engineering exercise.	We know that lean manufacturing and process re-engineering can work to dramatically improve cycle times and lead times, and lower the costs to process paperwork, products, and services. The same mindset can be applied to the product design itself. Design for manufacturing, value engineering, or similar methodologies can dramatically improve the landed cost for an item.
Variation	If anything is worse than WIP, variation might be the thing. If a company does not measure variation in scrap, quality, cycle times, warranty costs, or key specification measures, the opportunity could be significant. When variation is reduced, costs go down.
Plant observations of the "7 Wastes" • Defects • Overproduction • Inventory • Transportation • Waiting • Motion • Extra Processing	These items represent the most fundamental items to observe during the plant tour and to have management communicate their views on the measurement and management of these wastes. Individually, these items can be identified and quantified for focused improvement efforts. Collectively, they represent the cornerstone of any operational excellence initiative to enhance profits, service, and morale.