Triumph Advisory Group

STRATEGY | OPERATIONS | TRANSACTIONS

M&A Value Realization

OPERATIONS

Supply Chain is a major component of transactions, typically driving the largest synergies and impacting the most people by function

Up to 70% of a companies’ expense is driven by Supply Chain

Revenue

A superior supply chain protects revenue during times of transition by **ensuring customer orders are not interrupted** and by enabling an organization to generate stronger topline growth in **new products, new markets and geographies**

Operating expense

Effectiveness of procurement and **efficiencies of the supply chain** have a direct impact on operating expense

Capital expenditure

Supply chain often accounts for a significant portion of a company’s physical assets (such as manufacturing plants and warehouses), **excellence in strategic sourcing and supply chain operations** can strongly influence a company’s cash outflow

Working capital

Supply chain’s ability to quickly get goods into customers’ hands, and receive payment for those goods **drives a company’s operating cash flow**

30%-50% *Cost synergies are driven by supply chain*

Summary of supply chain synergy areas

Sourcing

- Price harmonization
- Rationalize suppliers
- Policy, procedure, organizational alignment
- Outsourcing strategy
- Strategic sourcing: indirect and direct

Transportation

- Interim transportation management
- Transportation procurement
- Outsourcing strategy
- Comprehensive transportation management
- Order fulfillment, warehousing and after sales support
- Network rationalization and design

Manufacturing

- Demand management
- Demand and supply balance
- Manufacturing strategy
- Manufacturing excellence
- Master production plan and schedule

Working Capital

- Category specific terms
- Improve standard payment practices
- Inventory strategy
- Improve yield from billing and collections

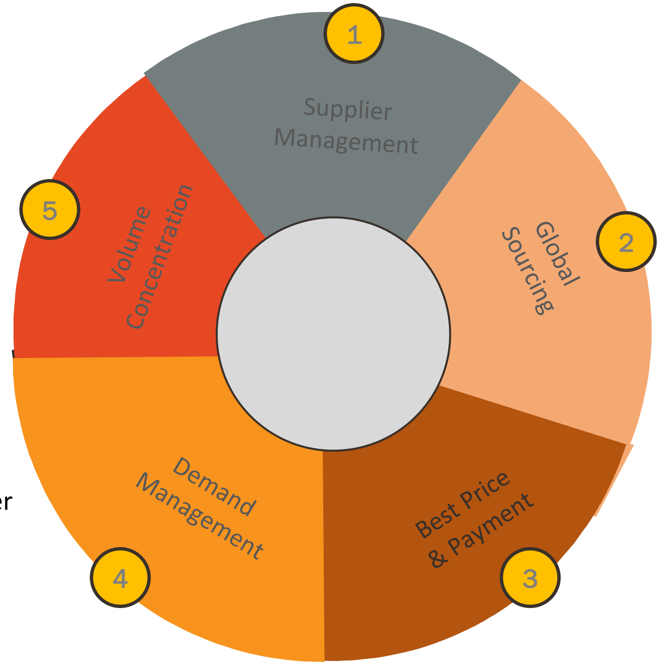
Key Considerations for Sourcing

- Are there opportunities to transform the procurement capabilities?
- How to leverage buying power and to change the paradigm?

- Establish/develop key suppliers
- Employ strategic alliances/partnerships
- Examine strategic make versus buy

- Develop integrated supply chain
- Manage supplier risk
- Measure supplier performance

- Consolidate number of suppliers
- Redistribute volume among suppliers
- Pool volume across units
- Combine volume from different commodity categories



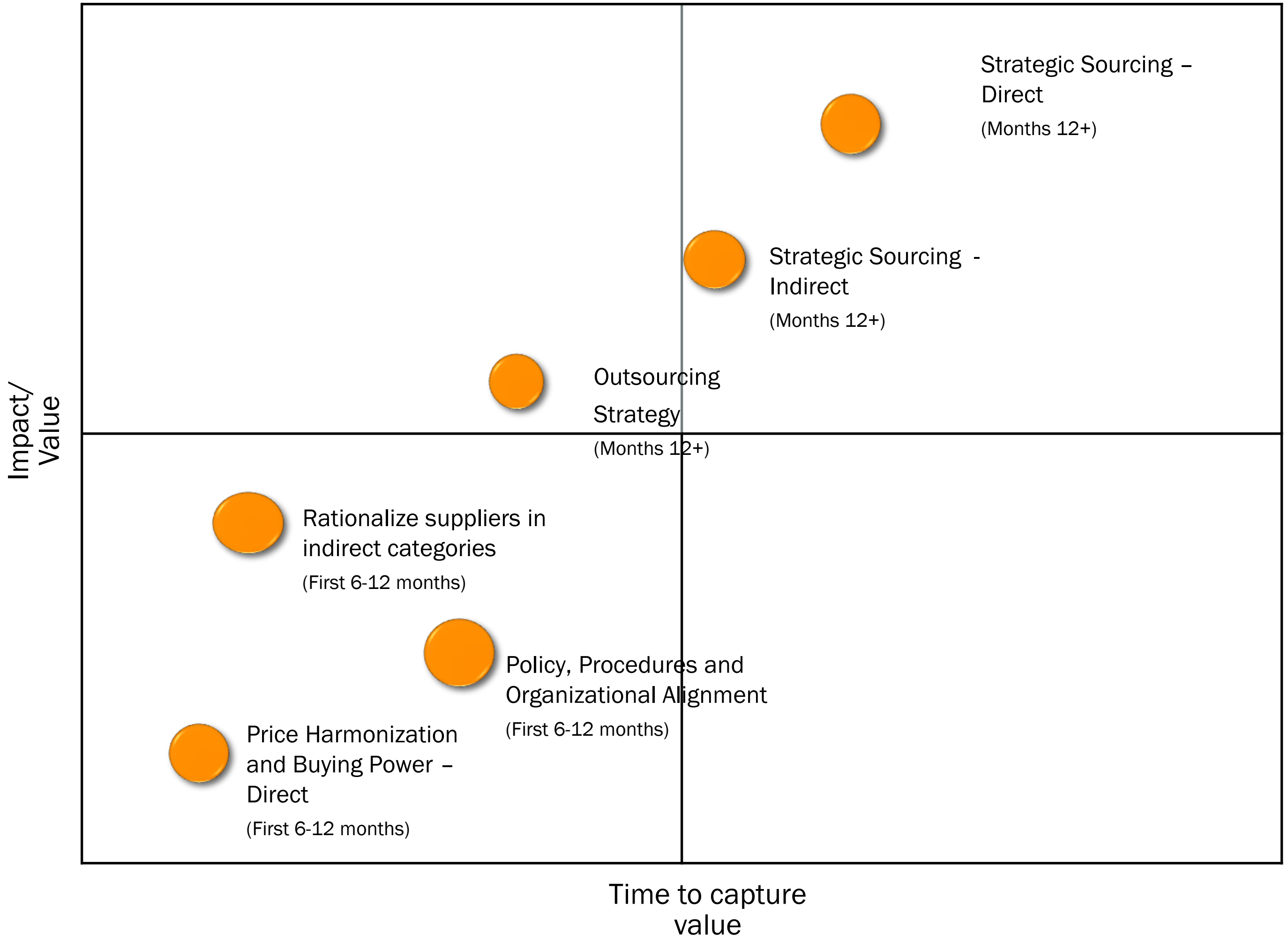
- Expand geographic supply base
- Develop new suppliers
- Profit from global supply/demand imbalances

- Optimize working capital to enable commercial strategy and establishing a cash culture
- AP cash conversion improvements
- Use supply chain finance to optimize cash flow
- Improve transaction efficiency
- Compare “total” costs
- Model “should-costs” and renegotiate prices
- Unbundle pricing

- Increase cost awareness / enforce tighter policies
- Encourage substitution and reduce frequency
- Reduce quantity or eliminate demand
- Tolling (contract manufacturing)

Sourcing Synergies Order of Magnitude

As a supply chain subset, sourcing-related activities provide considerable opportunity for synergy realization



Priority Order: High to Low

Sourcing groups	Complexity (L/M/H)*
Price Harmonization	L
Rationalize suppliers (indirect category)	L
Policy/procedure/org. alignment	M
Outsourcing strategy	M
Strategic sourcing - Indirect	H
Strategic sourcing – Direct	H

For a Fortune 50 technology company we advised on integrated sourcing strategy and delivered $225M in savings

- For a Fortune 50 technology company's acquisition of a mobile phones and smart devices business, delivered $225M in sourcing savings; developed new operating model, processes and training in sourcing
- Created two new master contractual agreements: Product Supply Agreement (PSA) and Logistics Services Agreement (LSA)
- Streamlined existing terms and conditions and utilized a Supplier Portal to simplify process & documentation

Scope	Value Delivered
• **Sourcing Synergies –** help establish a framework and cadence for identifying and validating Sourcing integration savings • **Strategic Sourcing Program Management –** assist with developing and overseeing execution of an integrated strategic sourcing approach for a set of targeted workstreams • **Operating Model Development –** assist with development and Implementation efforts of new, integrated Sourcing processes	• Developed detailed approach to identify, quantify, and manage Sourcing synergies, yielding more than **$225M in savings (Total Deal = $600M)** • Effort deemed a tremendous success by leadership; we are being asked to support other functions to implement approach • Established Sourcing Integration PMO to provide structure, support overall coordination, and alignment with integration • Designed and developed new Operating Model with "future state" processes for combined organization

Key Considerations for Manufacturing

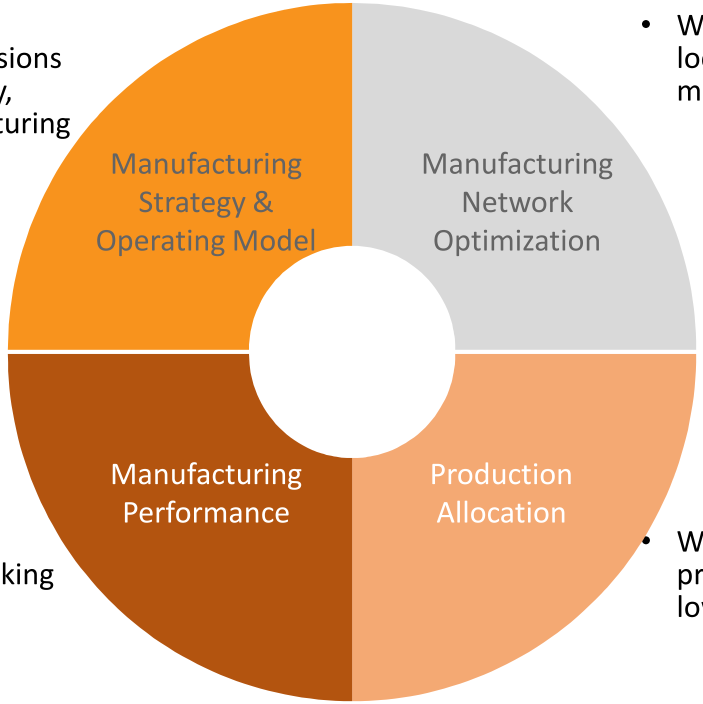
- Are there opportunities to transform and optimize the Manufacturing footprint?
- How to minimize costs while setting up the organization for growth and improving flexibility?

1

- What is the integrated company operating model across the dimensions of labor relations, facilities strategy, sourcing & alliances, and manufacturing process technology?

2

- What is the appropriate number and location of manufacturing facilities to meet current and future demand?



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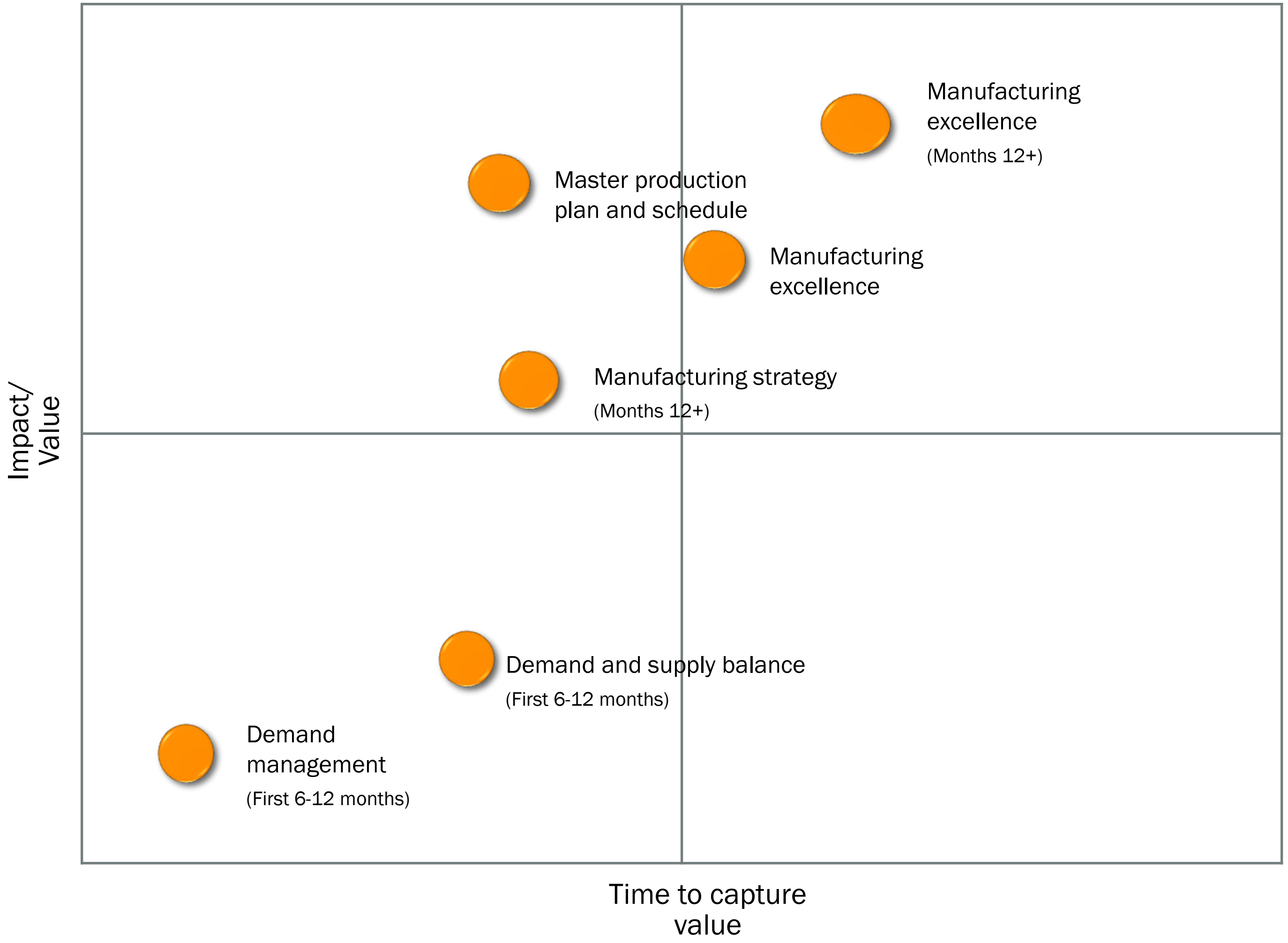
- How to streamline manufacturing performance, while improving working capital & financial performance?

3

- What is the approach to allocate products across plants (High volume low mix vs. low volume high mix)?

Manufacturing Synergies Order of Magnitude

As a supply chain subset, manufacturing-related activities provide considerable opportunity for synergy realization.



Priority Order: High to Low

Sourcing groups	Complexity (L/M/H)*
Demand Management	L
Demand and supply balance	M
Manufacturing/ strategy	H
Manufacturing excellence	M
Master production plan and schedule	H

* Complexity (L/M/H) – based on (1) disruption to business, (2) number of people needed to support; (3) technology needed to implement

For a Fortune 50 technology company we used the fully landed supply chain costs to determine the manufacturing footprint post close

- Integration of two distinct manufacturing profile technology companies required changing the manufacturing approach by assessing the dependent costs, the most important being labor, facilities, and contract margin
- Developed a cost model that assessed the cash flow per unit difference for 5+ discrete manufacturing footprint scenarios and changes in Total Network Cost based on various scenarios:
  - Moves in either direction – to/from Insource/ CM, any region/ facility
  - One-time cash (in/out) for startup/shutdown

	TARGET	BUYER/CM
Methodology	• Build-to-Order • TARGET-owned facilities are primarily final assembly (several tiers of sub-assembly suppliers are used)	• Build-to-Stock • Order size typically large: thousands+ (Hardware1)
Common Equipment	• SMT equipment capacity could be leveraged for other TARGET products	• Contract Manufacturer flexes equipment to accommodate multiple client's order demands
Location Rationale	• First consideration is for owned facilities with similar products, followed by other factors: Lowest cost location; capacity; market proximity; supplier and R&D proximity	• In large CM campus • Near component suppliers
Outsource approach	• Outsources some design and manufacturing • 'Light touch' approach gives control to CM • T1.5 and T2 suppliers are heavily used for most sub-assemblies	• Direct involvement with CM for increased control • 30+ BUYER badged IDL per site
Product Variations	• 20,000 SKUs	• 1,900 SKUs
Tax considerations	• VAT is avoided through local licensing • Global tax benefits are claimed to be significant	• Optimizes tax position through R&D and intellectual property ownership

Key Considerations for Transportation

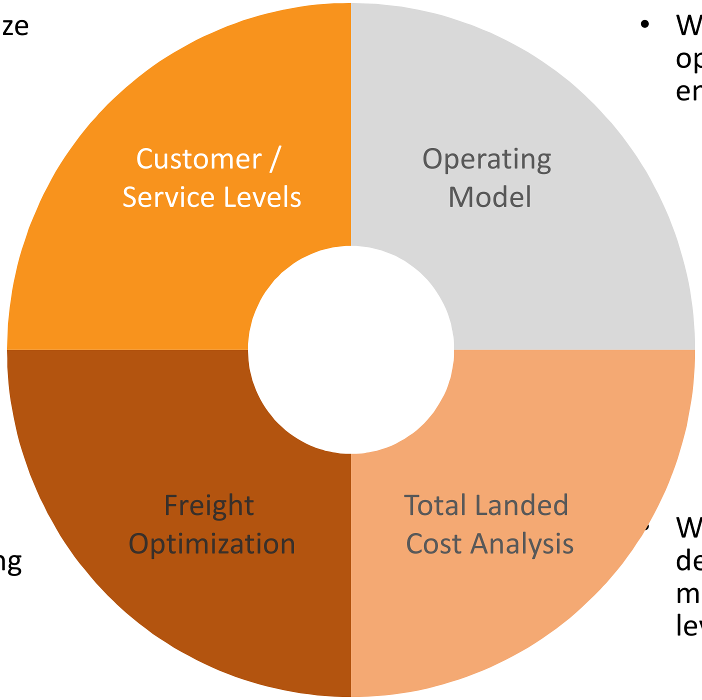
- Are there opportunities to transform the delivery network and distribution capabilities?
- How to optimize combined network for costs while maintaining/ improving service levels?

1

- Do opportunities exist to optimize service levels for customer segments?

2

- What is the right product supply operati`ng model for the combined entity?



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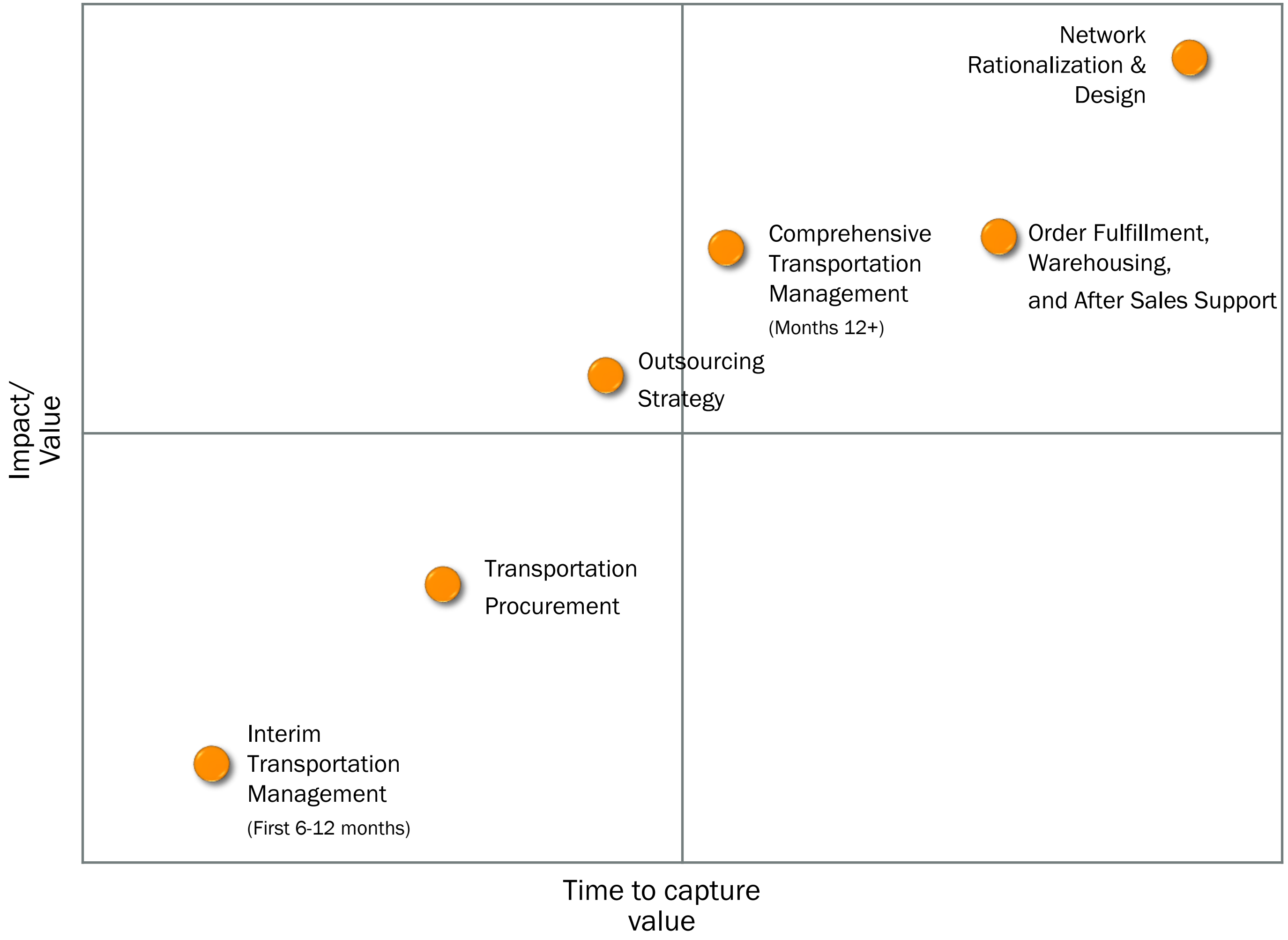
- Can freight costs be reduced by shifting modes and consolidating volumes?

3

- What is the distribution network design that will minimize costs while maintaining or improving service levels?

Logistics Synergies Order of Magnitude

As a supply chain subset, logistics-related activities provide considerable opportunity for synergy realization.



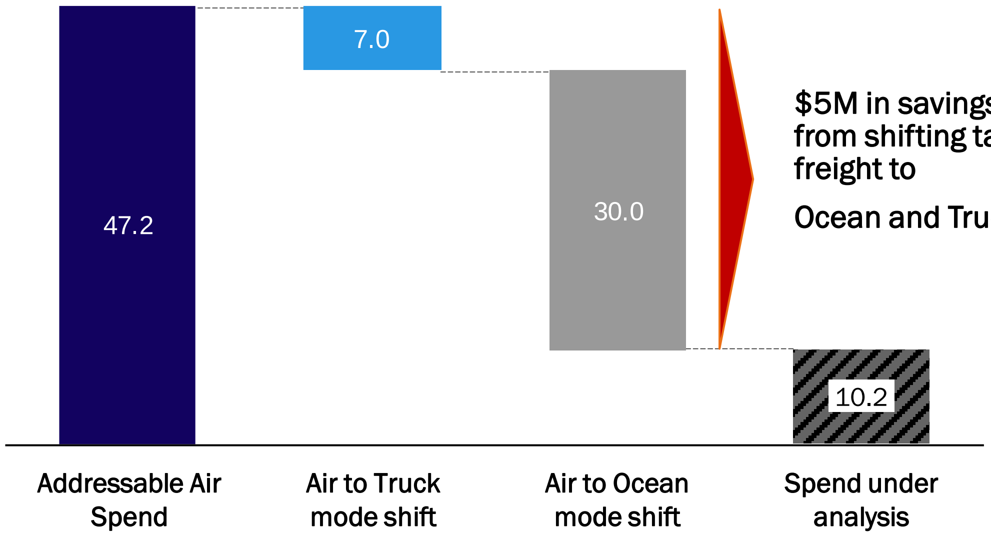
Priority Order: High to Low

Sourcing groups	Complexity (L/M/H)*
Interim transportation management	L
Transportation procurement	L
Outsourcing strategy	M
Comprehensive transportation management	H
Order fulfillment, warehousing, after sales support	H
Network rationalization & design	H

* Complexity (L/M/H) – based on (1) disruption to business, (2) number of people needed to support; (3) technology needed to implement

For a $15B technology company we identified rapid savings through air to non-air strategy change and spend visibility improvement

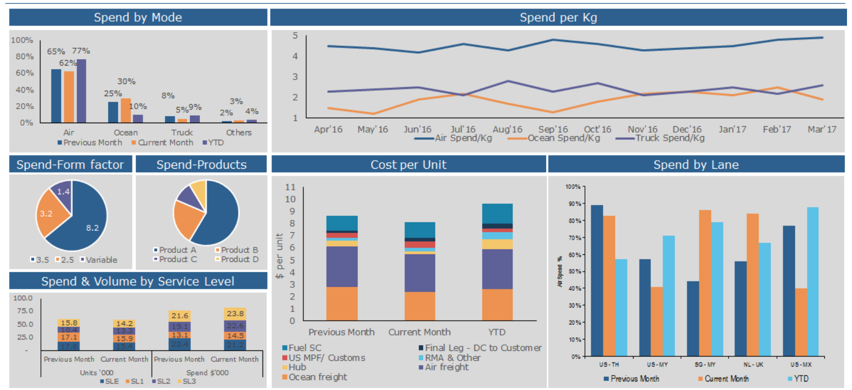
- Conducted preliminary analysis on shipment data to create high-level demand profiles for the largest spend lanes based on historical data; captured $2M in savings from shifting constantly demanded SKUs to ocean
- Captured $2.6M in savings shifting air freight spend to target for a mode shift to truck
- Switching service levels on expected weekend deliveries revealed $1M savings opportunity with no impact on delivery schedules
- Negotiated FTL/LTL trucking rates and executed on identified opportunities



$5M in savings captured from shifting targeted air freight to

Ocean and Truck

Developed an Executive Spend Visibility Dashboard



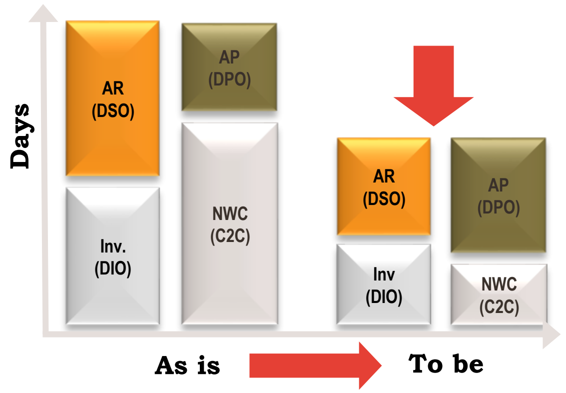
Enhancing deal value creation through Working Capital improvements

Value created in acquisitions

- In depth analysis will help set realistic peg for working capital requirements avoiding post close surprises
- Improved working capital efficiency will enhance deal NPV through improved free cash flow
- Validation of seller's balance sheet projections
- Assess quality of operational processes involving products, suppliers and customers that drive working capital and enact change to reduce write-offs risk
- Optimized business processes will positively impact cost, service and risk in addition to cash
- Gauge current ability and potential for enhanced cash flow forecasting accuracy by understanding key drivers

Results

- Benefits typically range between 15 and 25% of working capital
- With +50% of the benefits attained within the first year of the improvement program
- In the past 5 years we have globally identified >$35 billion of cash flow opportunity from working capital for our clients



Leading practices for value capture and synergy tracking

Examine both the positive and negative synergies	► Look at the full range of positive synergies, including cost, revenue, tax and balance sheet synergies ► Distinguish between one-time and recurring synergies ► Be realistic about potential negative synergies
Get the timing right and focus on the details	► Fully understand the details of the transaction and ensure these details are reflected in synergy capture models/plans ► Be reasonable about timing; aggressive timing and not necessarily over estimation of synergy value is often the source of gaps in realized targets ► Consider the cost of achieving/realizing the anticipated synergies
Identify sources of value and key performance metrics	► Take a disciplined approach to mapping out synergies ► Assign accountability for monitoring synergy realization ► Identify key performance metrics and ensure that performance is measured against projected synergies included in the deal model; excluding the effect of unanticipated synergies or other macroeconomic factors ► Avoid being too formulaic in managing deal synergies; adjust review methodology to each deal
Create accountability	► Assign responsibility for achieving synergies (frequently assigned to the head of the acquiring BU) ► Set additional targets and measure performance on the regional or functional level of the BU ► Implement a formal performance monitoring program to track synergy performance ► Link individual compensation to synergy realization ► Form an internal group of synergy-focused professionals to assist during transactions
Communicate synergies appropriately	► Find a balance between being too optimistic (creates synergy expectations that are too high) and too conservative (thwarts excitement about the deal) ► Clearly differentiate between expected, annualized and realized synergies when communicating with stakeholders