Triumph Advisory Group

STRATEGY | OPERATIONS | TRANSACTIONS

M&A Value Realization

OPERATIONS

Supply Chain Issues Complicating M&A

Supply chain issues are a big concern for businesses right now. Forced shutdowns, crisis forecasting, labor issues, and logistics all played (or are still playing) a part in the current shortages. Business has not snapped back to normal.

Managing the supply demand imbalance will be a tricky problem for at least the next six months, if not the next year or beyond. And it will certainly complicate M&A transactions for business owners looking to sell.

Supply issues are affecting M&A in a couple of ways:

- Supplier due diligence. We're seeing buyers do supply chain due diligence like we never have before. In the past, buyers were relatively relaxed about supply issues, but now they're looking for multiple suppliers, length of supplier relationships, strength of supplier operations and more.
- Manufacturing / Logistics footprint: Complex footprints introduce added cost and risk to the Technology sector. Optimizing the footprint to get economies of scale and better service levels will be a key focus of capturing synergies

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	Operating expense	Capital expenditure	Working capital
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**	**Effectiveness of procurement** and **efficiencies of the supply chain** have a direct impact on operating expense	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	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

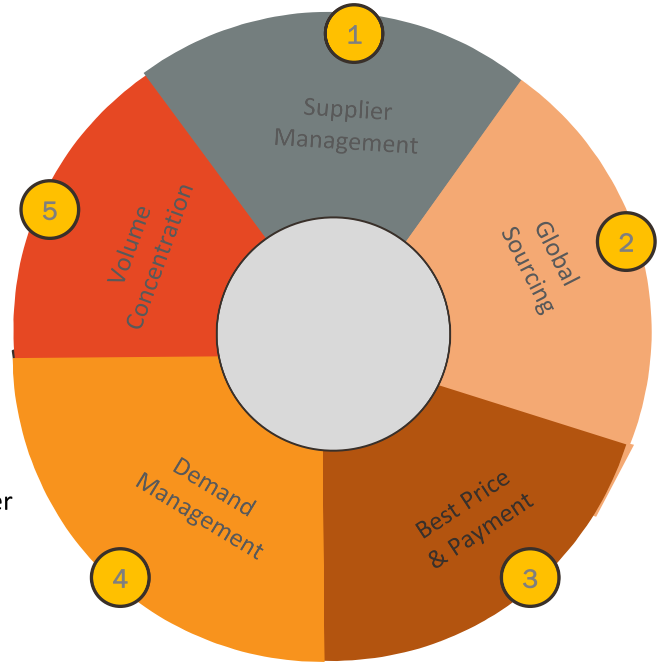
Key Considerations for Sourcing

- 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



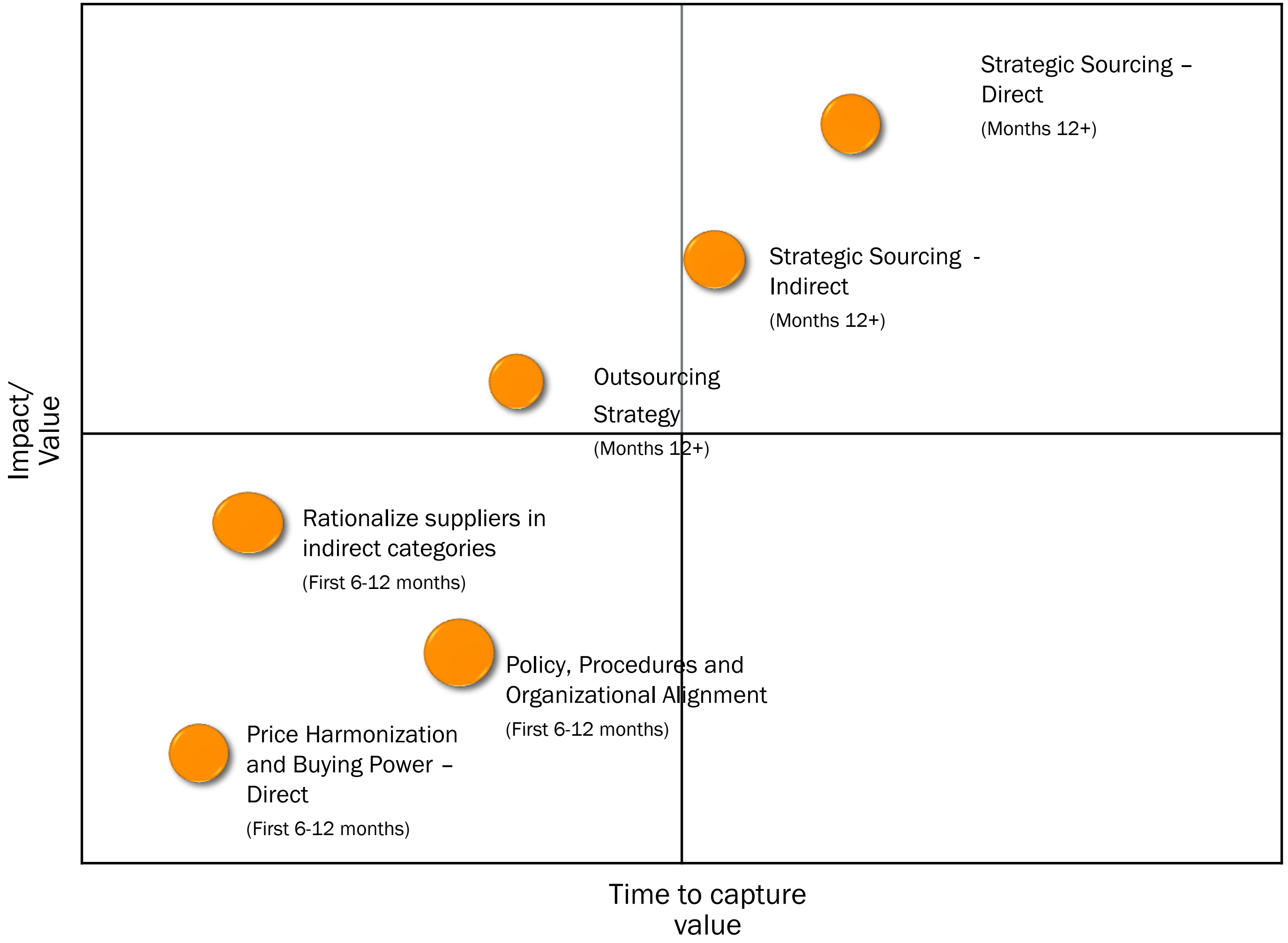
- Expand geographic supply base
- Develop new suppliers
- Profit from global supply/demand imbalances

- 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

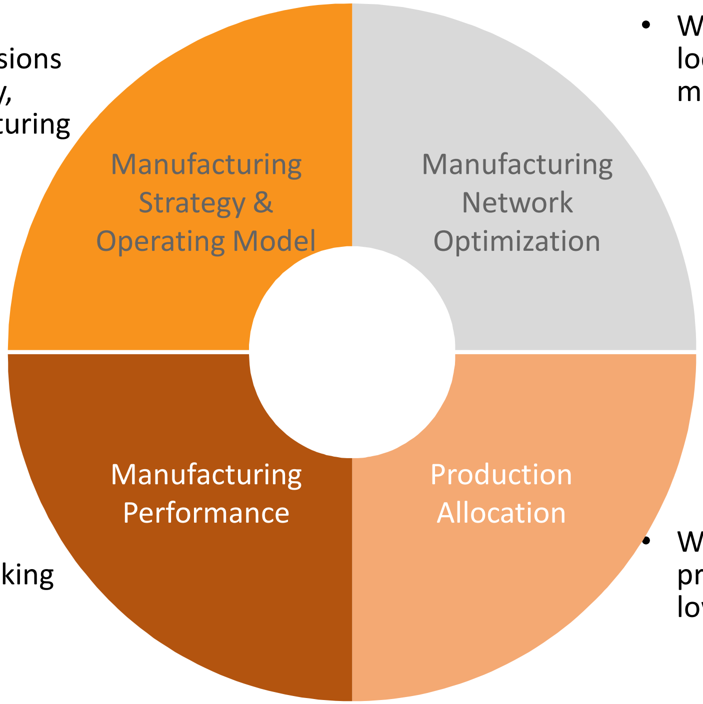
- Are there opportunities to transform and optimize the Manufacturing footprint?
- How to minimize costs while setting up the organization for growth and improving flexibility?

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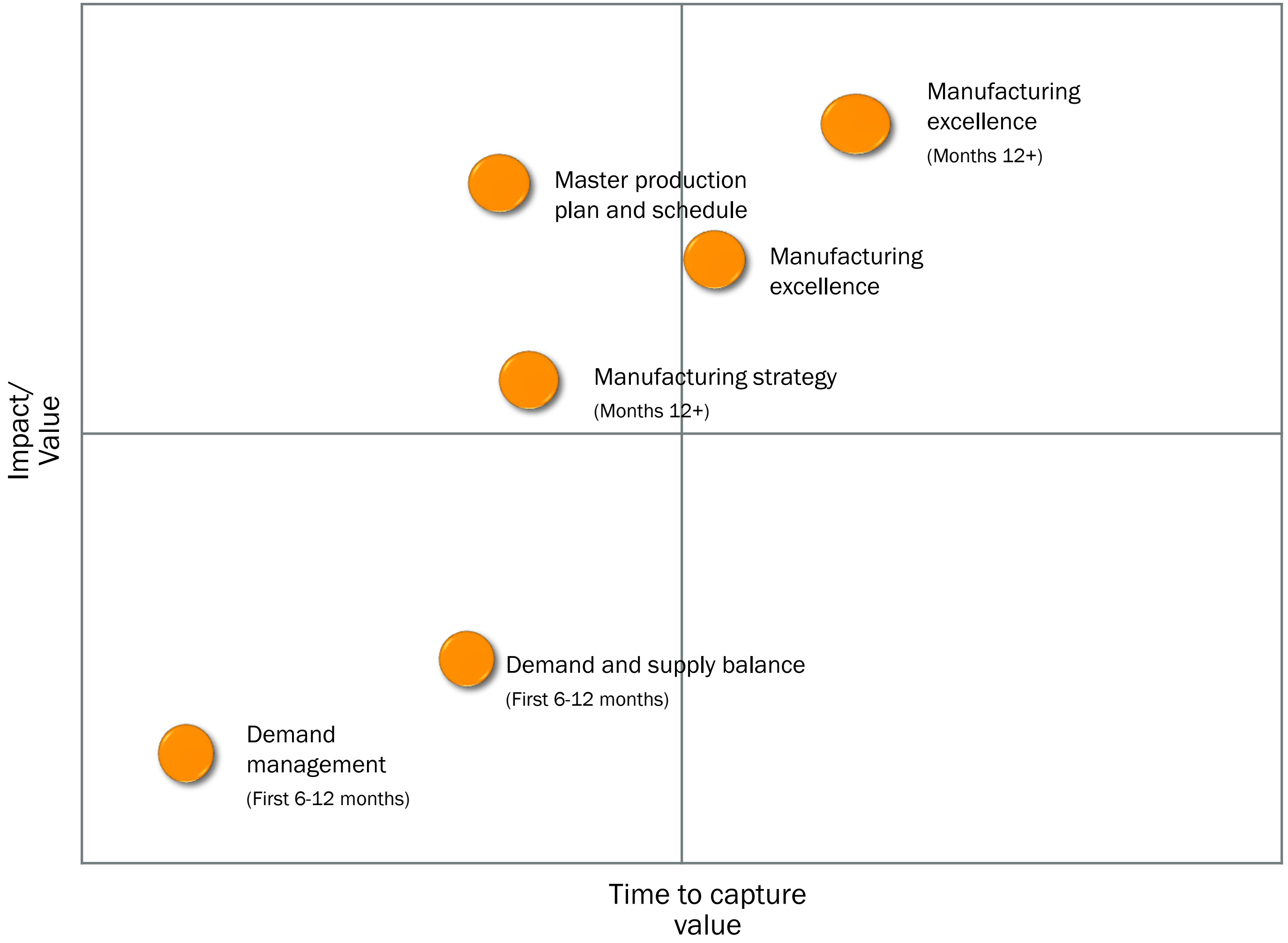
- How to streamline manufacturing performance, while improving working capital & financial performance?

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

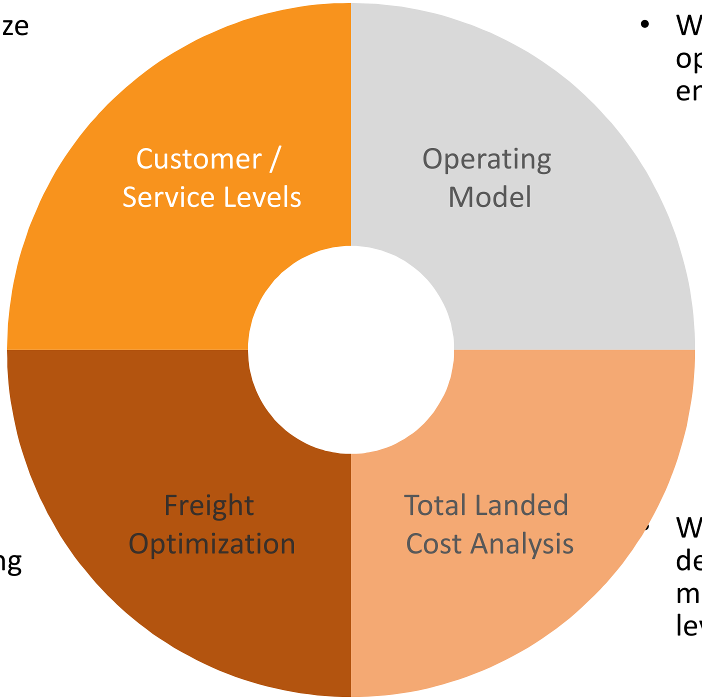
- Are there opportunities to transform the delivery network and distribution capabilities?
- How to optimize combined network for costs while maintaining/ improving service levels?

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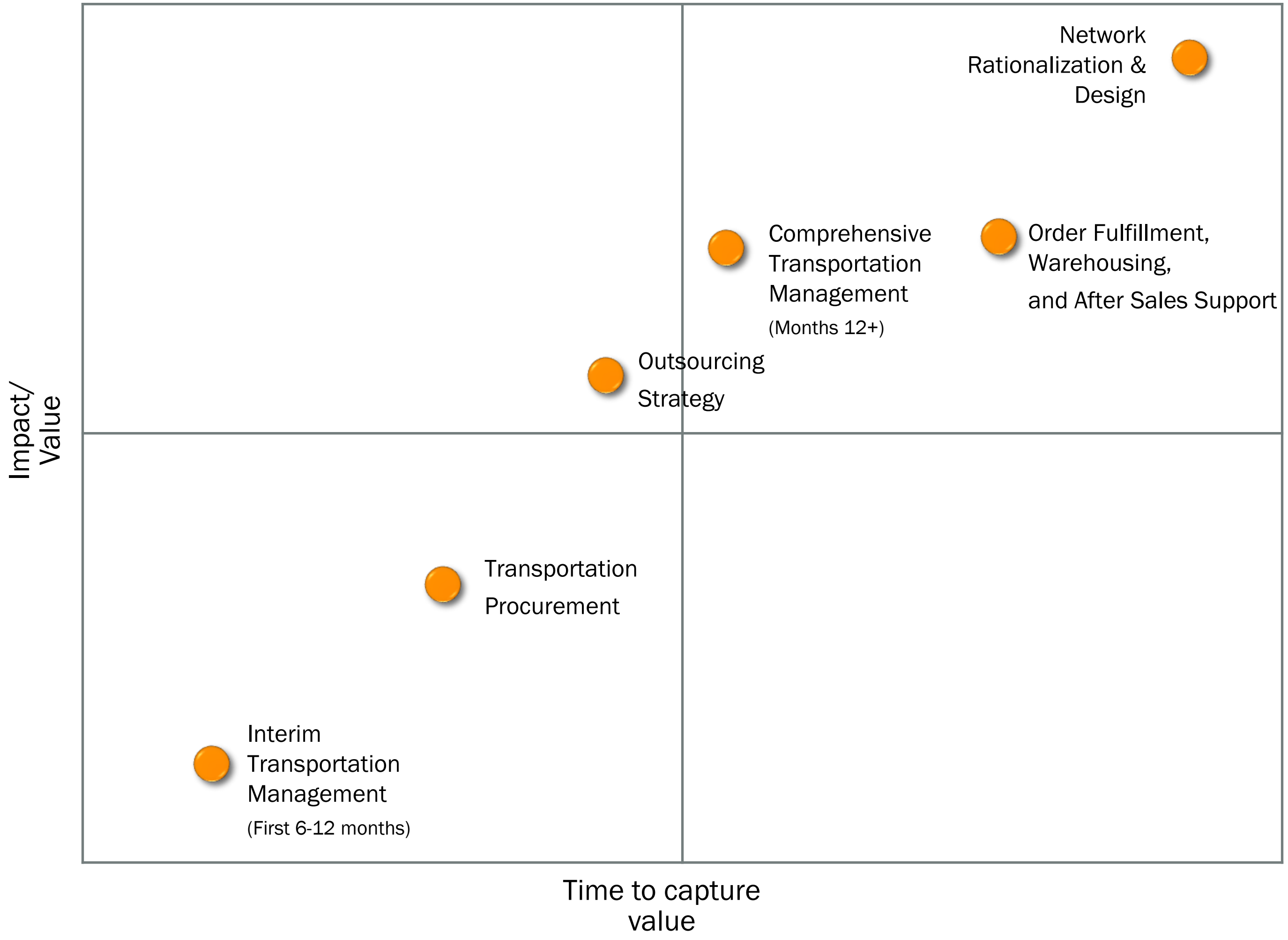
- Can freight costs be reduced by shifting modes and consolidating volumes?

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.



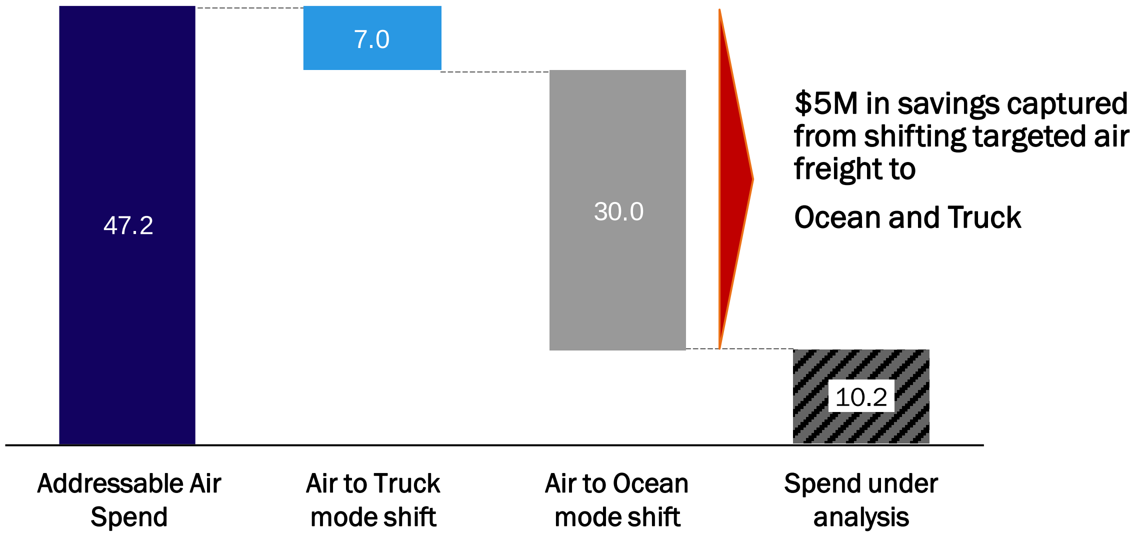
Priority Order: High to Low

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

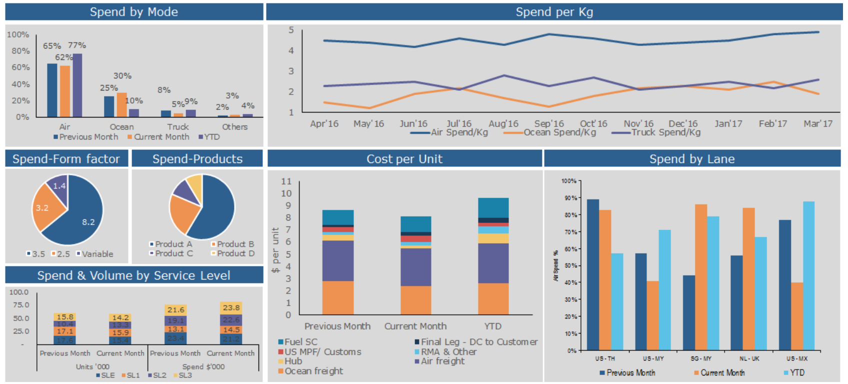
* Complexity (L/M/H) – based on (1) disruption to business, (2) number of people needed to support; (3) technology needed to implement

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



Developed an Executive Spend Visibility Dashboard



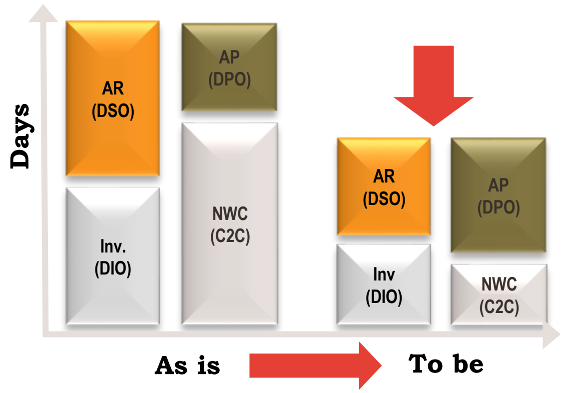
Enhancing deal value creation through Working Capital improvements

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