Private Equity

ILS uses structured approaches, specially designed to meet the needs of our private equity clients to ensure that they attain exceptional levels of operational value creation with each acquisition. We support their operating partners, significantly enhancing the effectiveness and results of their activities, or we serve in the role of operating partner directly for our clients. Our experience is broad, our services are comprehensive and our track record is exceptional.

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[wptabtitle] What We Do[/wptabtitle]
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At the core of what we do is to develop and implement innovative new process designs for each acquisition'€™s major value streams. These designs dramatically reduce operational waste in order to create superior performance gains and accordingly higher valuations. We emphasize low-capital improvements with rapid payback and strong return on investment. Our contributions go beyond the formulaic solutions that many consultants in this arena provide. Examples include manage-to-standards approaches as well as the common practice of targeting points of excess labor. The latter is typically followed by orders given to management on where and how much to cut, but with no clear guidance on how to put the pieces back together again. Although they are build on sound ideas that we subsume in our own methods, these approaches generally squeeze only modest cost savings out of operations while leaving both management and front line personnel exasperated. In contrast, we identify the wastes and opportunities that others don't see or understand and we develop effective, often novel and approaches to eliminate them. Subsequently, we work hand in hand with floor leaders and internal experts to design and implement the future state. We teach them, earn their respect and confidence and we work together to deliver the results. In sum, we create operational value by putting much smarter ways to do the work into practice.

We work in partnership with our private equity clients across the entire ownership timeline from due diligence to exit. Up front, during the initial restructuring phase, we focus on the smooth implementation of aggressive and high-impact change. As we continue to learn more about the business and operations, substantial new improvement opportunities will continue to become evident. Implementation of these improvements - at this point largely the responsibility of the internal leaders whose skills we have developed -- will proceed under a structured improvement program. Accordingly, value creation occurs at a strong rate throughout the ownership cycle.

Although major EBITDA improvement is a critical goal, we deliver the full package as needed to truly build a better business. Specifically.

- We strengthen the operations management process and team, enabling them to consistently meet demanding performance goals and to solve problems quickly and systematically.
- We resolve, once and for all, the nagging, persistent operational problems that have been holding operations back (example).

- We build internal skills and capability to sustain lean operations and to continue with an aggressive continuous improvement program throughout the ownership cycle
- Our scope of improvement is by no means limited to direct production or service operations. We address office processes, accounting, sales, procurement, IT, inventory management, engineering and product development, maintenance, logistics, supply chain, etc. These operations may be a primary source of value creation for the company, such as product design for a custom capital equipment producer, or they might serve a supportive role, such as a warehouse and distribution center for order fulfillment. The goal is total enterprise transformation and it is critical to address the most critical and/or wasteful direct and supporting value streams.
- Our goal is to continue in long term partnership with the acquired company after their sale is complete as a trusted advisor where we continue to learn together and make improvements that create higher levels of operational performance and value delivery.

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[wptabtitle]Our Approach[/wptabtitle]
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We apply ILS System™ using a special version that has been specially designed to meet the needs of our private equity clients. This methodical approach is designed to:

- **Yield exceptional gains in operational performance and value creation**

  through aggressive and impactful process improvements.
- **Effectively engage with the company**

  using special strategies to rapidly and efficiently implement major operational change and achieve stabilization.
- **Effectively manage project implementation.**

  This includes creating full visibility of restructuring progress, identifying issues, applying timely and effective problem solving efforts to resolve them and confirming that we have achieved targeted financial performance gains.
- **Build a solid skill base inside the company**

  so that they can sustain the new systems and assume primary responsibility for continuous improvement programs that increase operational value throughout the ownership timeline.
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Strengthen operations management

to insure that performance gains are sustained, capacity is effectively deployed, problems are visible and quickly/effectively addressed.

The process begins during due diligence where we conduct a thorough operations assessment for the potential acquisition. The organizational culture and management personnel and systems are reviewed. The goal is to identify change leaders and key technical resources; obstacles to restructuring; and improvements that will be needed in operations management for effective operational planning, resource deployment, performance measurement and problem solving. Preliminary work content and cycle time measurements are taken and historical performance data are collected to understand labor and machine capacity utilization and operational run ratios. Overtime, cost of quality and other significant operational costs. Major operational problems are identified and reviewed, assessing their impact on performance and any capital needs to fix them (e.g., tooling disrepair). The operations are carefully observed with a trained eye to identify all forms of waste. They are compared to ideal lean models that we have developed for similar classes of operations and the gaps are noted. The operations are reviewed from a value stream perspective to identify systems level wastes. Promising, practical and affordable countermeasures for eliminating these wastes are devised. We then synthesize an achievable future state design that promises high performance gains. Our goal, at stage in the process, is to identify improvements that can be readily implemented at low cost and will, effectively, improve the performance of the company by 1½ to 2 letter grades. For multi-site or bolt-on acquisitions, opportunities for consolidation are also assessed. The work is broken down into individual projects and we quantify the impact in financial terms. This information is available to the due diligence team for incorporation into the financial analysis and valuation of the acquisition.

Normally operations restructuring will commence immediately after closing. Rightsizing would be executed first in cases where necessary, with appropriate communications plans, implementation monitoring, transition services for separated employees and efforts to rebuild morale of the stayers. Internal leaders of the restructuring activities are identified and these individuals will take ownership of the improvement projects. A number of management tools are put in place, including:

- Labor planning tools to align labor capacity to the demand workload
- Manpower planning boards for use by front line supervisors to insure effective use of labor on an hour to hour basis
- Productivity calculators to establish balance each shift between the standard hours of orders released and actual labor hours to be earned, thereby ensuring that plant efficiency is maintained and subsequently improved as we move forward.
- An initial version of the lean daily management system is rolled out across the entire

plant. At this time, the system will focus on production and select operational issues. Roles and responsibilities are established and leaders are trained on the new process. Lean standardized work systems will be put in place. This system will grow in scope as the operational transformation progresses.

A restructuring war room will be put in place. This room will identify each project, giving project ownership, current and future state, implementation schedule and plan, KPI tracking with goals, completion status, identified problems and problem solving documentation to resolve those issues.

Operations leaders and restructure team members will commence a daily plant walk through, both to support the daily management system that is focused on normal production and to understand progress and issues related to the restructuring projects.

Following ILS System™, we execute many of the projects through a form of highly effective operational improvement workshops called bootcamps. We carefully prep for bootcamps, completing the activities necessary to ensure rapid and effective operational restructuring during the bootcamp event, which typically lasts from 3-5 days. This might involve gathering data, conducting analyses, lining up resources, fabrication, moving equipment, etc. During the bootcamp, teams learn the principles, practices, tools, techniques and underlying theories behind everything we do. They then design, pilot, implement, problem-solve and confirm the effectiveness of the improvement projects. The days are long and the work is intense. But by teaching the participants, they understand, contribute to and enthusiastically support the change. We set high goals and objectives and push the teams to achieve exceptional results. (Seven figures in annualized cost savings have often been realized during a single bootcamp activity.) They gain confidence in the change that is happening in their organization and their support and enthusiasm grows. They leave equipped to continue driving improvements later in the ownership cycle. Note that bootcamps are often attended by individuals from multiple portfolio companies, not just from the site and/or company where the bootcamp is held. The individuals from outside companies will be expected to apply what they have learned in the bootcamp in continuous improvement projects at their own facilities and these projects are carefully managed. Other engagement models such as value stream design workshops are employed depending on the nature of the projects. Note that the projects will include full implementation of lean tools including 5S, standardized work, visual control, etc.

Often there will be a need for special problem solving efforts addressing issues such as quality problems, run ratio concerns, scheduling problems, etc. These efforts will be integrated at appropriate points in time in the restructuring program. They are often foundational to the other restructuring projects.

As restructuring phase progresses, the daily management system will be strengthened. Standardized work, in particular, will be emphasized and strong systems put in place. We insure that run ratios are brought at least to at least standard industrial benchmark levels and structured problem solving will be undertaken as required to achieve these goals

ILS will report out weekly in a standardized format to private equity leadership. In additional, all improvement projects will be thoroughly audited with direct participation of these leaders. Successful re-audits and closure of corrective action lists will be expected. Attainment of financial performance goals will be confirmed with appropriate operational data, especially the productivity calculator mentioned above.

Restructuring generally takes 180-270 days. During that time, there will be major operational improvements with results flowing to the bottom line, strengthening of management systems, resolution of key operational problems and internal skills built for continuous improvement. As noted earlier, the companyâ€™s letter grade for operational excellence will have risen 1½ to 2 grades. There will also further collaborative learning, identifying more wastes and opportunities to improve.

At this point, ILS would conduct a second operational assessment to identify additional improvement opportunities. The assessment would inform the companyâ€™s second year budget. A plan would be made for implementation, incorporating the improvement results into the budget. ILS would lead certain projects, particularly the more complex and challenging ones and the company would assume responsibilities for the others. In general, the results of this assessment are very substantive and it is very important to continue to capture these opportunities for operational value creation.

Hoshin planning would be introduced during this budget cycle as a mechanism where the company establishes and takes full ownership of a strong continuous improvement program. Top management will set improvement targets for KPIs and each department or operational team will define their contributions to these goals and the means they will pursue to achieve them. In so doing, they assume full ownership of the continuous improvement program and are accountable for achieving the results. This program will be carefully nurtured throughout the remainder of the ownership cycle. It will create significant value and help to build a culture that is highly desirable to future ownership.

Seven to eight months prior to sale, a final operational assessment is undertaken as part of exit strategy planning. The investment firm will make decisions on whether to capture some or all of these improvements prior to sale or to inform the future owner of the potential. Those selected for implementation will be implemented during the final six months of ownership. In addition, there will be a strong campaign of 5S and visual control and a focused effort to strengthen the standardized work and daily management system. These areas have strong influence on operational reviews by new potential owners.

An Example of Operational Problem Solving

Company X is an acquisition of a major private equity firm. ILS was leading operations restructuring at the facility and it quickly became clear that production scheduling was a major barrier to success for its large aftermarket division. The problems included:

- Parts were high variety with complex routings. Process setups were numerous and time consuming. A high proportion of labor requirements were dedicated to non-value-added changeover. So much time was spent changing over certain processes that capacity needs could only be met through overtime.
- Although schedulers worked diligently to develop efficient plans to run all the jobs on the MRP backlog, there were excessive numbers of hot jobs that disrupted production and precluded effective planning. Because of needs for special setups and inefficient labor deployment, these jobs were run at low margins, often at a loss.
- We had implemented many improvements that raised the efficiency of the major processes. However, scheduling resulted in a need to shuffle personnel from work center to work center on an adhoc basis. Excess labor capacity was needed to compensate for this uncontrolled variability in workload.
- Despite frequent parts shortages, inventories were excessive for many parts.

This problem, that had been a nemesis to the business for years, clearly needed resolution. It was detracting from customer service rates, reducing average margins, increasing holding costs, wasting labor and preventing the company from realizing full benefits from many of the other improvements it had implemented.

As part of our engagement with this firm, we developed a much stronger scheduling process that overcome most of these performance issues. It involved:

- Controls that combined rules on sales and special stocking strategies for rarely ordered parts that maintained the strong service rates that customers demanded while minimizing havoc on the production floor.
- A new available-to-promise policy on export sales that, again, maintained strong service while minimizing operational disruption.
- A novel pattern production system that changed replenishment triggers from a reorder point to a temporal pattern. This system accounted for product flows throughout their routing and reduced the need for changeovers by more than 60%. It enabled more frequent replenishment of most parts, lowering inventories significantly. It also leveled workloads, enabling effective deployment of staff.
- A new inventory management approach where safety stock and fill levels were calculated using special service part models. (Different models were used for distinct classes of parts.) When combined with pattern production, these mathematical models were much more realistic than the classical models that had been used earlier. As a result, one could much more precisely design stock levels for service rate targets. This improved both service rates as well as the incidence of shorts.

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