

Find the "Hidden" EBITDA Using the 9-Box Window to See

"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
- Painful capacity constraints and unplanned downtime

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:

- Use the 9-Box Tool to identify opportunities in customer pricing, inventory strategy, lean manufacturing, production scheduling and SKU management
- 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 \$1.9 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**

Measurable Results

- **\$3 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%**

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:

- Used the 9-Box tool to drive inventory and pricing strategies
- 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.

As a result of these actions, annual EBITDA increased by \$2 million, or 50%, in six months. Management, continuing the processes we taught them, added a 3rd million in EBITDA improvement by the end of year 1. 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.

Net Improvement – 50% Increase in EBITDA

For Further Information

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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 strategy, manufacturing, supply chain, and human capital development. We were founded in 1995 and are headquartered in Chicago.

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