



Sample Targeted Value Creation Program

Client: Take-private carve-out

Investor: middle market PE-fund, \$50B+ AUM

Scope: re-forecast 2020 budget; size, scope and plan variable cost-out program

SEPTEMBER 2021

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Agenda

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Project Summary

Example program reporting

Appendix: project charters

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Project summary

Direct Labor Productivity program at PE-backed heavy equipment manufacturer

We helped scope and implement a program to increase labor productivity at a facility manufacturing equipment serving the volatile oil & gas industry. Increases to productivity drove a 20% YoY increase in unit volume, enabling growth for the portfolio company.



Impact

Our team supported a PE-backed manufacturing company serving the oil and gas industry in identifying and delivering a portfolio of initiatives resulting in a 40,000 direct labor hour efficiency improvement. Increase in productivity drove plant capacity, increasing overall labor productivity (OLE) and enabling the company to capitalize on increasing oil prices, driving YoY revenue and volume by 20%.

Context

Client was purchased by private equity fund in 2018 following carve out from a global international conglomerate. Serving the oil and gas market, the Client had ongoing difficulties adjusting its operations in response to volatile oil prices. The Arcos team was engaged to improve labor productivity in the plant to improve ability to capitalize on high oil prices in 2022.

Approach

The Arcos team supported execution of a series of idea generation workshops to capture the best ideas within the organization. We then onboarded project plans and business cases to a customized project management platform using Smartsheet and Power BI to manage the program, providing regular read outs to the CFO and COO to monitor progress.

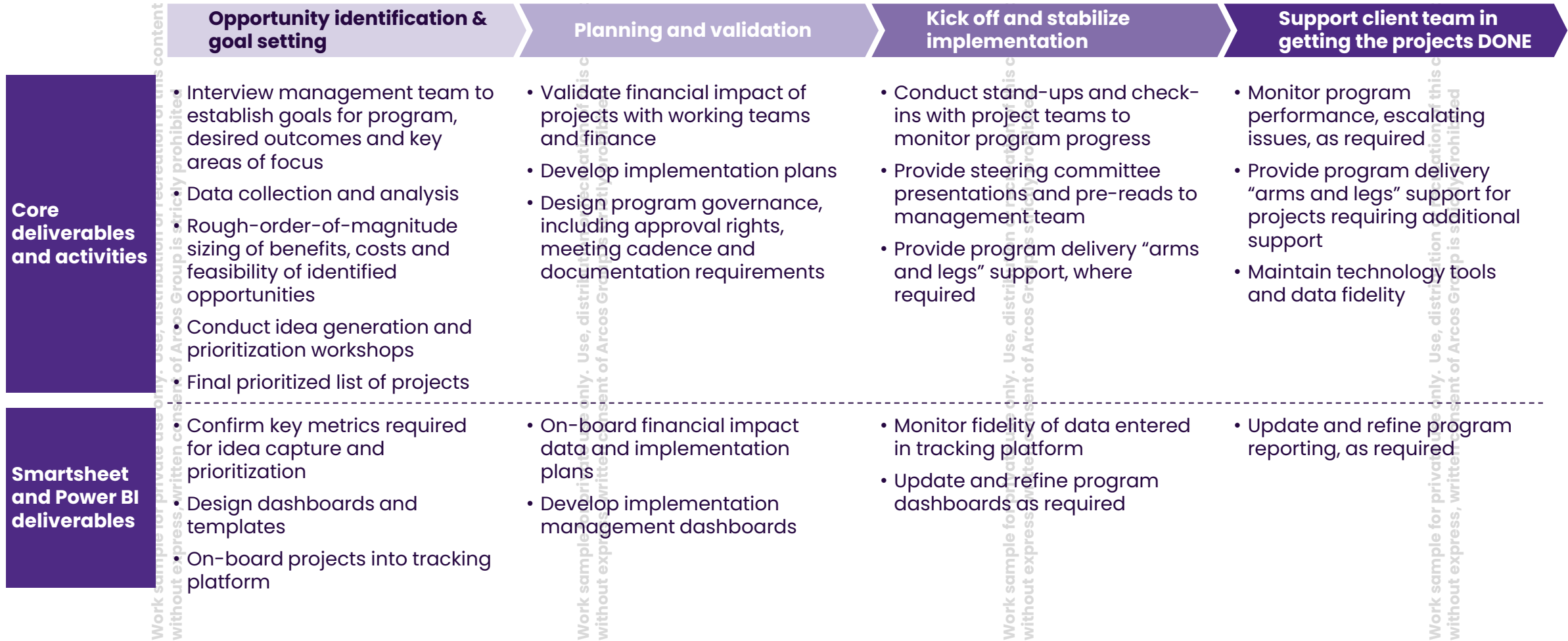
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Project approach



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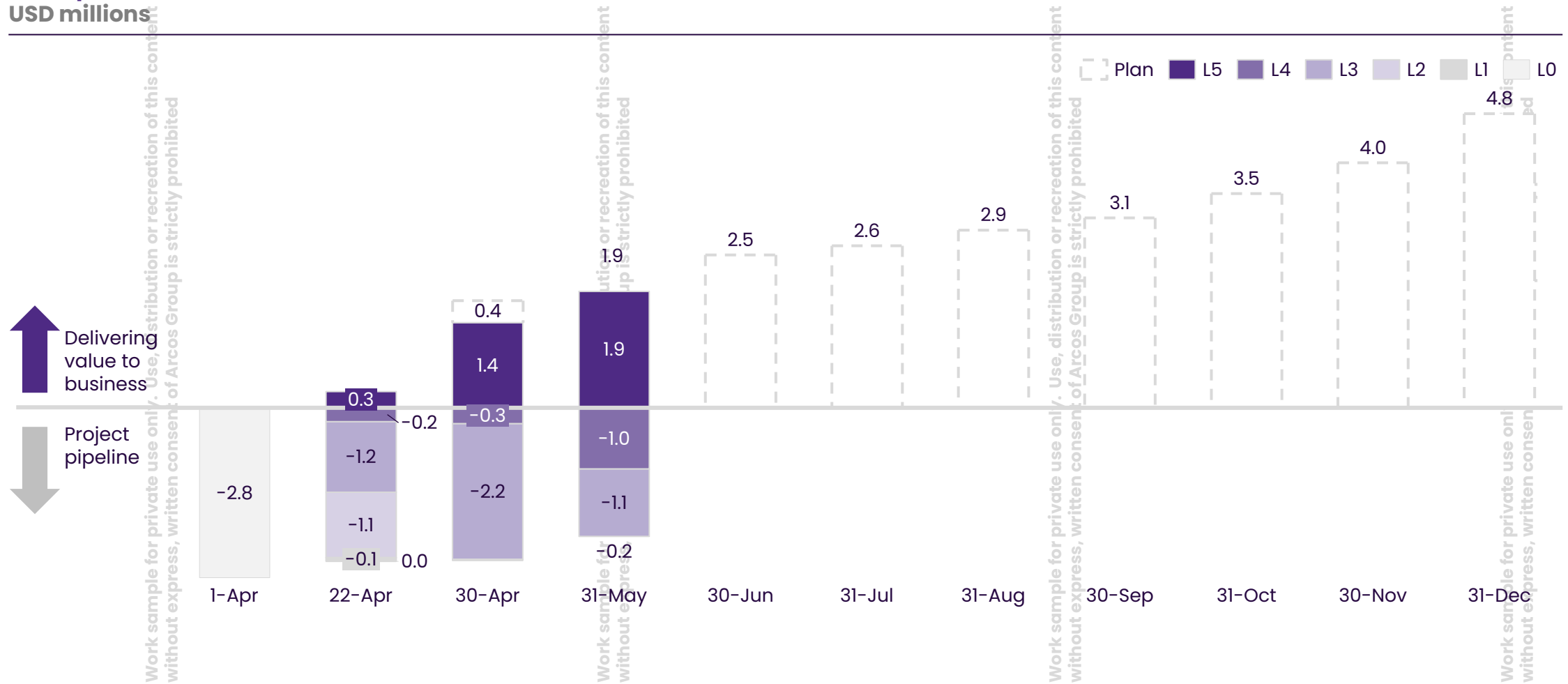
Appendix: project charters

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Thus far, the program has delivered \$1.9M in run-rate savings. The program is expected to deliver 4.8M by EOY 2020

Anticipated 2020 free cash flow realization USD millions



CLIENT's variable cost program is on-track to deliver 2020 budget commitment

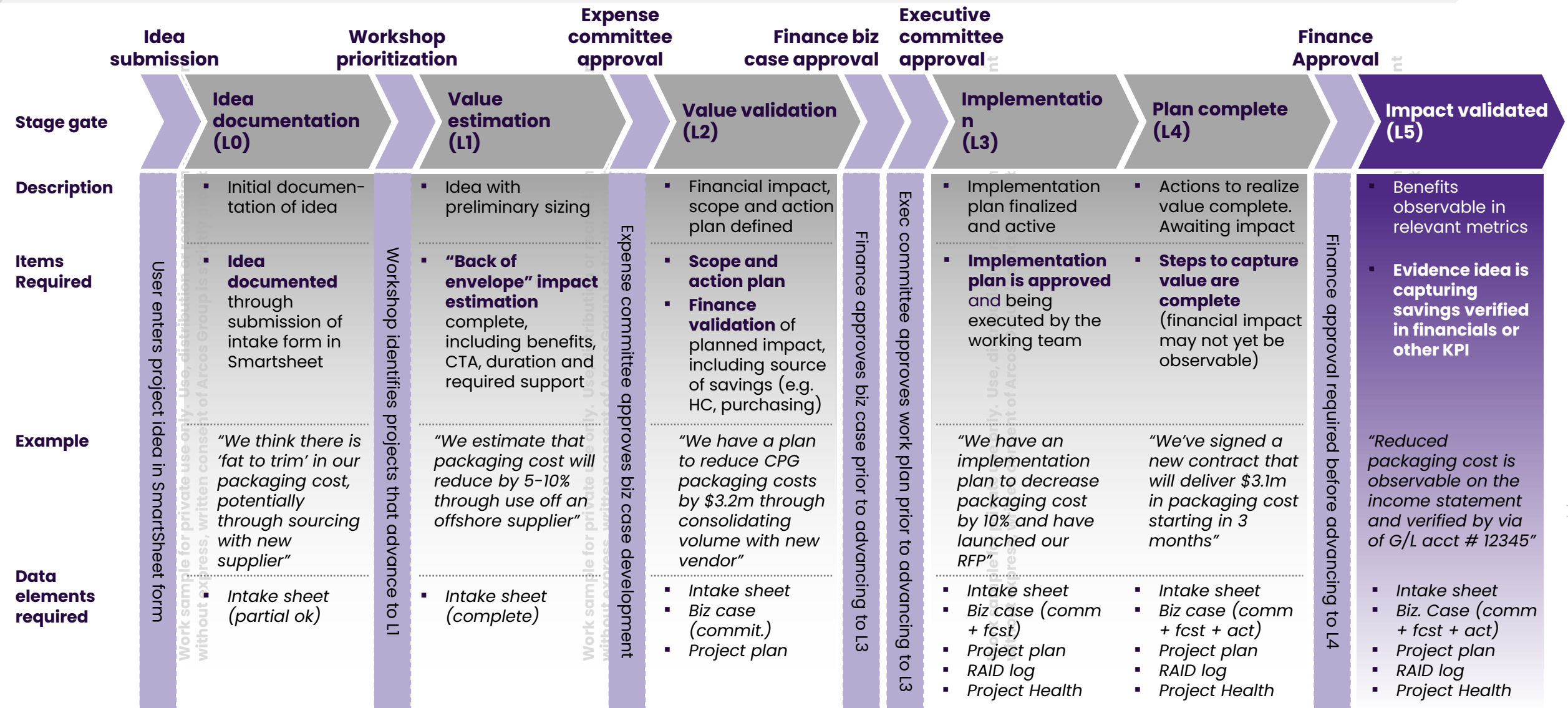
USD thousands

	Count	Annual benefit	Anticipated 2020 benefit	Req'd 2020 investment	2020 net benefit - budget	2020 net benefit - current est.	Notes
Fluid care	4	\$115	\$70	\$31	\$17	\$39	<ul style="list-style-type: none"> Program is currently on pace to deliver 2020 commitments While current estimate of project impact exceeds budget, value leak is expected as add'l information is collected and timelines adjust to reflect realities of business SUPPLIER cylinder head porosity spec adjustment (\$1.1m impact) is implemented, but financial impact is being validated
Maintenance	10	\$601	\$417	\$35	\$277	\$381	
Purchased services	5	\$354	\$167	\$54	\$157	\$113	
Scrap	9	\$2,587	\$1,502	\$25	\$1,242	\$1,477	
Rework	2	\$34	\$20	\$0	\$30	\$20	
Supplies and tooling	13	\$540	\$307	\$0	\$195	\$307	
Total variable, excluding capex	43	\$4,231k	\$2,482	\$146k	\$1,917	\$2,337k	
Capex	3	\$545	\$545	\$0	\$856	\$545	
Total free cash flow, incl. capex	46	\$4,776k	\$3,027	\$146k	\$2,773k	\$2,881k	

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Project governance overview:

L0-L5 project status is assigned based on standard requirements and approvals



“Phase 1” projects will capture \$2M of in-year cash flow while retaining manageable project load for management team

FY2020 free cash flow – Phase 1 USD thousands

		Category	Owner	IL status
A205002H scrap reduction	1,075	Scrap	Harpreet Patel	L3
Scrap recovery	266	Scrap	Kevin Johnson	L3
Insource elect. Labor	95	Maintenance	Cliff Smith	L5
Buy water filtering	75	Maintenance	Cliff Smith	L3
Insource LV cable install labor	60	Maintenance	Cliff Smith	L4
Cancel SUPPLIER	59	Maintenance	Cliff Smith	L4
Reduce PART# scrap	59	Scrap	Cesar Ramirez	L3
Eliminate 3PL	58	Purchased services	Lisa Chong	L3
SUPPLIER tools 5%	44	Supplies and tooling	Steve Chambers	L3
Time-based mtce for PART#	37	Scrap	Cesar Ramirez	L3
TLM - rods machining	36	Supplies and tooling	Sean O'Leary	L3
Tool crib 4>3	33	Purchased services	Sean O'Leary	L3
TLM - PRODUCT head tooling	29	Supplies and tooling	Sean O'Leary	L3
Bulk oil	29	Fluid care	Steve Chambers	L3
Re-scope med. Duty PM	29	Maintenance	Pat Bertoncello	L3
Phase 2	224			
Total	2,209			

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/ Purchased services

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Workstream overview: purchased services

PRELIMINARY

	Owner	Initiative name	IL status	Planned 2020 FCF	Planned L4 date	Impact status	Timing status	Comments
23	Cliff Smith	Re-source technical writer away from SUPPLIER (\$40/hr)	L5	\$3k	4/10/2020			<ul style="list-style-type: none"> Project complete
24	Naveen Gupta	Reduce spend on inspection and re-work with SUPPLIER by self-performing low skill activities	L3	\$7k	8/1/2020			<ul style="list-style-type: none"> April SUPPLIER spend is approximately \$1400 USD, which is below our target of \$3000. This is great news.
25	Lisa Chong	Update racking solutions in warehouse to avoid third-party warehousing fees	L3	\$58k	8/1/2020			<ul style="list-style-type: none"> ...
26	Lisa Chong	Reduce temp labor sourced through SUPPLIER resourcing	L5	\$23k	4/1/2020			<ul style="list-style-type: none"> Project complete. Cash impact \$23k
27	Dan Moran	Self-perform oil pan cleaning or re-direct to Blast Engineering Services, which uses a more efficient process in clean room	L3	\$24k	4/15/2020			<ul style="list-style-type: none"> Project now expected to complete 5/8/2020. Impact now expected at \$2k Need impact tracking

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Purchased Service – Technical Writer

Initiative details

Project owner: Cliff Smith
2020 cash impact: \$3k
Completion date: 4/10/2020
Impact status: ●
Timing status: ●

Initiative description

- Re-source technical writer away from Planet Forward (\$40/hr.)

Progress notes

- Project complete

Issues encountered / help needed

- Requested form HR (Vanessa Tripp) on actual hourly rate as I believe \$40 was ballpark.

Implementation plan and status (major milestones only)

Step #	Description	Target date	Status
1.	Notify employee that last day worked would be April 9 th 2020	4/3/2020	Completed
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.	...		

Self-perform low-skill maintenance activities

Initiative details

Project owner: Naveen Gupta
2020 cash impact: \$7k
Completion date: 8/1/2020
Impact status: ●
Timing status: ●

Initiative description

- Reduce spend on inspection and re-work with SUPPLIER by self-performing low skill activities
- Baseline NON-cleaning spend with SUPPLIER is \$5,000/month for Jan-March 2020
- Target reduction is 40%
- To meet target, NON-cleaning spend with SUPPLIER must be <\$3000/month

Progress notes

- Outstanding POs to SUPPLIER paid
- \$1400 in spend with AM during month of April, exceeding target of <\$3k

Issues encountered / help needed

- Receiving Quality to create NC after receiving inspection completed with issues pictures and full detail of the issues.
- PO request will be made based on NC
- Flipping support required for Oil Pans.

Implementation plan and status (major milestones only)

Step #	Description	Target date	Status
1.	BLANKET PO request to Allied has been stopped (Naveen Gupta/Abdul). PO request will be made based on the NC only.	4/01/2020	Complete
2.	Begin inspection (Noble parts – Oil Pan, Crankshaft, Crankcase), Create NC with specific issues pictures attached. (Eric Bernard-Receiving Quality)	04/13/2020	Started
3.	Begin process to request PO if not feasible cleaning by CLIENT personnel considering the requirements based on engine build plan (Naveen Gupta)	04/13/2020	Started
4.	Discuss the plans to have CLIENT personnel clean oil pans instead of SUPPLIER (Dan Moran / Harpreet Patel / Naveen Gupta)	4/21/2020	Scheduled
5.	Track earned-hours and rework with SUPPLIER	5/1/2020	In progress
7.			
8.			

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Racking Storage Solutions for W11 Warehouse

Initiative details

Project owner: Lisa Chong
2020 cash impact: \$58k
Completion date: 08/01/2020
Impact status: ●
Timing status: ●

Initiative description

- Implement additional racking in W11 warehouse to remove dependency on third-party warehousing
- Project will create 1000 racking positions. Racking has been confirmed to physically fit in warehouse. Move cantilever racking to assembly clean room

Progress notes

- 04/15: Update quote obtained from supplier
- 04/24: Kevin Jones and Damian Lundquist reviewing racking in W12. Expected report for 04/27 to review with OHSA
- 04/28: Meeting set up with OHSA to review CLIENT racking and determine rough cost estimates to relocate & certify vs. buy new

Issues encountered / help needed

- TBA

Implementation plan and status (major milestones only)

Step #	Description	Target date	Status
1.	Analysis of storage requirements	Complete	Complete
2.	Analysis of racking options available	Complete	Complete
3.	Request for quote	Complete	Complete
4.	Quote review & schematic diagram update	04/16/2020	Complete
5.	Requisition submission	04/17/2020	Not started
6.	Review available racking in CLIENT	5/1/2020	In progress
7.	Review certification of racking per Canada standards (Mike Cornell)	5/1/2020	Not started
8.	PO Approval	04/20/2020	Not started
9.	Receipt of goods	TBA	Not started
10.	Installation	TBA	Not started
11.	Certification and sign off	TBA	Not started
12.	Pull material from TORA and store in racking	08/01/2020	Not started

Reduce temp labor sourced through SUPPLIER resourcing

Initiative details

Project owner: Lisa Chong
2020 cash impact: \$23k
Completion date: 04/01/2020
Impact status: ●
Timing status: ●

Initiative description

- Reduce temp labor sourced through SUPPLIER resourcing to support de-branding

Progress notes

- Project complete

Issues encountered / help needed

- N/A

Implementation plan and status (major milestones only)

Step #	Description	Target date	Status
1.	Obtained quote for temporary labor	4/1/2020	Complete
2.	Assessed work to be completed	4/1/2020	Complete
3.	Coordinated with machine shop to supply inhouse labor for work	4/1/2020	Complete

Self-perform or re-direct oil pan cleaning costs

Initiative details

Project owner: Dan Moran
2020 cash impact: \$24k
Completion date: 5/8/2020
Impact status: ●
Timing status: ●

Initiative description

- Self-perform oil pan cleaning in house in CLIENT as phase 1.

Progress notes

- Reviewed process with sourcing and plant quality. April 21
- Sourcing provided all inclusive data for all parts over time. April 22
- Reviewed labor availability with machining and assembly leaders. April 23
- Identify cleaning equipment to purchase. Reviewed and identified April 23.

Issues encountered / help needed

- No manpower available to complete cleaning

Implementation plan and status (major milestones only)

Step #	Description	Target date	Status
1.	Quality and Supplier Quality to establish weekly cadence to discuss cleaning requirements for oil pans in terms of quantity and labor.	Week of 4/27	Open
2.	Provide labor requirements to machining and assembly leaders prior week for planning purposes.	Week of 4/27	Open
3.	If labor available do not initiate cleaning PO's with SUPPLIER	Week of 4/27	Ongoing
4.	Establish proper work instructions to clean. Quality personal to provide training as required for cleaning.		Complete
5.	If technicians require lifting/rigging training set up training for those designated technicians.	4/27/2020	As required
6.	Purchase vacuums, air blow offs, knee pads, tables. Ongoing purchase of cleaning materials.	4/27 - 5/8/2020	Open
7.	Include cleaning materials in QC/Supplier Quality budget 2021	5/4/2020	Open
8.	Begin self-cleaning pans	5/8/2020	Not started