



# Actual M&A Due Diligence Report

## Case Study

XXXXX Industries  
Louisville, KY  
2011

Dear XXXXXX,

After a review of operations, current business, and strategic issues, 3B have developed four primary priorities for the business. The four primary priorities include:

- Facilities alignment
  - Consolidate facilities to improve productivity, safety, and oversight
  - Requires capital improvement for a paint booth, which will be minimum.
  - Can move in stages by consolidating two Louisville sites first, followed by c-town facility
  - This alone will provide an expected 10%+ productivity improvement
  - Lean out the workstations with a basic 5S program
  - Develop a flow of materials before the move is made to reduce your WIP and transportation costs.
  
- Production Management
  - Organizational changes to occur along with consolidation
  - Assign Mike to lead the sales effort full time, C.B. must step up or find a new leader
  - Material flow can be improved in the new facility, 3B mapped Approx travel distance from inbound to shipping of approx 2.5 miles as 3B showed you this can cut down dramatically.
  - Address lack of quality systems by upgrading C.S's skills and driving ISO to conclusion so that real quality initiatives can begin---a cultural adjustment must be made.
  - Top Management must drive the quality culture and completing the ISO program that was started 2 years ago would be an easy and productive start
  - Implement Shop floor production boards and hold daily and shift wide production meetings to drive accountability through the facility.
  - Late point identification of the stands will cut down on WIP by an estimated 20%.
  
- ERP implementation Modules available and prioritized
  - Quoting
  - Purchasing
  - Scheduling
  - Inventory mgt.
  - Job cost tracking
  - Again you have the technology in place you just need to implement the modules you currently have in house. This will drive great improvements in purchasing and quoting projects and reduce variability. These alone could drive huge top line and bottom line increases.
  
- Business Development/ Organizational Structure
  - Assign Mike to lead this effort, this is best use of his talents and connections in the industry, get him out on the road and selling.
  - Define roles for M,A, E and B. They have too much overlap and therefore no accountability.

- Define targets and contacts specific to the product mix
- Develop targets for creating an annuity stream by attracting repeat, repetitive business, similar to the E- stands.
- For the above, sell the service side of the business harder! Huge upside potential across your existing customer base and beyond.
- Must get products approved by XX and other OEM 's for use in the field and in European Shops, without it XXX industries will never gain a foothold in this very lucrative market space.

The tertiary priority will be to further develop the engineering capabilities of the firm. At first blush, *this engineering seems to be a core competency of the firm and will need to be developed deeper and broader once the priorities have been properly addressed. Once these other initiatives are complete, the engineering capabilities can be more fully exploited.*

The financial impact of the first two initiatives--facilities and production management--should produce at least a 10-15% productivity improvement after fully implemented. Current labor costs alone are about \$150k/month. Assuring a quality culture is in place may take some time, but will provide additional productivity improvements as improvements occur.

Implementation of the E-2 ERP software should allow additional productivity and quality gains, contributing nearly an equal amount of savings as the first two initiatives. BUT the savings in TIME will likely be even more important. Currently, Work in process inventory can build up inappropriately due to a lack of shop floor visibility to the workload. This causes way too much cash to be tied up in the business. A well implemented E-2 will provide tools to improve this situation with given you financial position is a must do.

Creating a detailed business development plan is essential to creating stability and continuity in the sales cycle. Mike is your best internal resource to assist in development of that work, but get him out of the production and back into selling.

The organization seems to consider any one of these initiatives to be a major undertaking. My experience in dealing with growing/struggling firms is that they can manage far more change than they are currently experiencing. Much more detailed planning is required to assure success and we will be focused on generating those plans the next few weeks. Again, 3B believe those who must execute the plans, should be the ones creating it—along with some guidance as necessary. That effort is in process this week. More detail will be available as the team creates those plans.

In summary, while more detailed planning is in process, we have “reset” the organization’s thinking about what must be done. We have made the initial changes in thinking by challenging the organization to think differently about where and how fast they can make improvements. 3B don’t wish to underestimate the challenges to the existing resources, but 3B believe they can do more than they understood or believed practical. It will require close supervision by Todd, myself, and Mike to assure we make these changes while being proper stewards of the limited cash available.

As requested this is a quick summary of my findings and will be available for further project development and management as requested by the business ownership.