

Accelerating Value Creation in Privately-Held Businesses

A Systematic Approach

June, 2006

The Opportunity

- Private Equity investors often suffer a major loss if one of their portfolio companies encounters the following problems:
 - **The company “runs out of gas”:** Many companies drift into protracted periods of dismal profit and growth after they have reached a certain size. Typically, the problem is a convoluted mix of many factors with disagreement about the right course of action.
 - **The optimal “exit” point keeps moving:** Too often investors realize that a portfolio company is unlikely to sell for an attractive price when the desired holding period comes to an end. New investments or major overhaul may be necessary before the company can be “shown” to potential buyers.
 - **A big and unexpected mishap occurs:** A sudden change in the market or competitive environment or a an internal upheaval can wreak havoc on a mid-sized company. Uncertainty, stress, and the need to rapidly redesign the business model can devastate even a competent organization.
- All three of these problems require the same medicine: a speedy solution; the realignment of many different parts of the strategy and organization; and the company-wide building of a new consensus and action plan.
- Alliance Consulting Group has over 20 years of experience in solving these types of challenges. The following material outlines some of our thinking and methodology.

Why Alliance Consulting Group

- Alliance is ideally suited to work with Private Equity investors. We bring the following benefits
 - **Top level strategy expertise:** We have a very senior staff with backgrounds from the major strategy consulting firms and MBA's from leading schools. Alliance clients include many Fortune 100 companies
 - **Full attention from the Partner:** The partners in our firm get deeply involved in the delivery of the work
 - **Analytically rigorous, emotionally sensitive:** We pride ourselves on professional modesty. Our approach is tough on the issues and easy on the people in the organization.
 - **Good fit with mid-sized firms:** We are large enough to handle complex companies and assignments, yet small enough to offer personal service
 - **High return on investment:** We have perfected a methodology that is rigorous, but time efficient. Our recommendations lead to actions with results
- Alliance has over 20 years of experience and track-record

Value Creation in Private Companies

- The market valuation of any company, whether publicly or privately held, is based on expectations of the future profitability/cash flows, the growth rate, and the perceived risk. Privately held businesses, however, differ from public companies in three distinct characteristics:
 - True value realization occurs at a specific future date (i.e., when the transaction is consummated), not on a daily basis. Private companies, therefore, can reap high rewards for a timely, and well executed performance improvement effort.
 - The buyer is one specific entity or group with the potential to add strategic synergy, rather than a multitude of anonymous investors. Management can position a private company to more precisely fit the desired profile of likely future investors.
 - The due diligence process gives the buyer an insider's perspective, a look "under the hood" that public investors typically do not receive. The expected scrutiny by future investors, requires – and rewards- a comprehensive and professionally done "renovation" effort.
- These differences make it possible to *systematically position* a private company for realizing maximum value at a specific time in the future.

Positioning For Value Creation

- Alliance has developed a systematic approach to position companies for maximum value creation:
 - A **12-point Diagnostic** identifies all the key **value drivers** and **value detractors**. This methodology rapidly gets to the issues that really matter and defines options for informed decision-making
 - A tailored **Value Maximization Plan (VMP)** determines the strategy and action plan that will bring the company into a new alignment and will realize the targeted value creation
 - **A Cascade Process** organizes a rapid, company-wide change and improvement plan to accelerate profitable growth and prepare the company for “showing”, if desired
- The following pages outlines how Alliance Consulting Group delivers these results

Making The Project Successful

- Our experience in working with fast-growing, proud, entrepreneurial companies suggests a few principles for conducting a successful strategy and profit improvement effort. The key is to balance several trade-offs:
 1. **Involvement vs. Resource Availability:** How to ensure that senior management and other key players are deeply involved while recognizing limitations in time and availability
 2. **Objectivity vs. Passion:** How to provide a hard-nosed, external assessment of facts while harnessing the emotional engagement of the organization
 3. **Aiming vs. Firing:** How to spend just enough time to rethink and improve on current strategies and habits while staying practical and action-oriented
- Alliance has developed a methodology and approach to effectively deal with these trade-offs

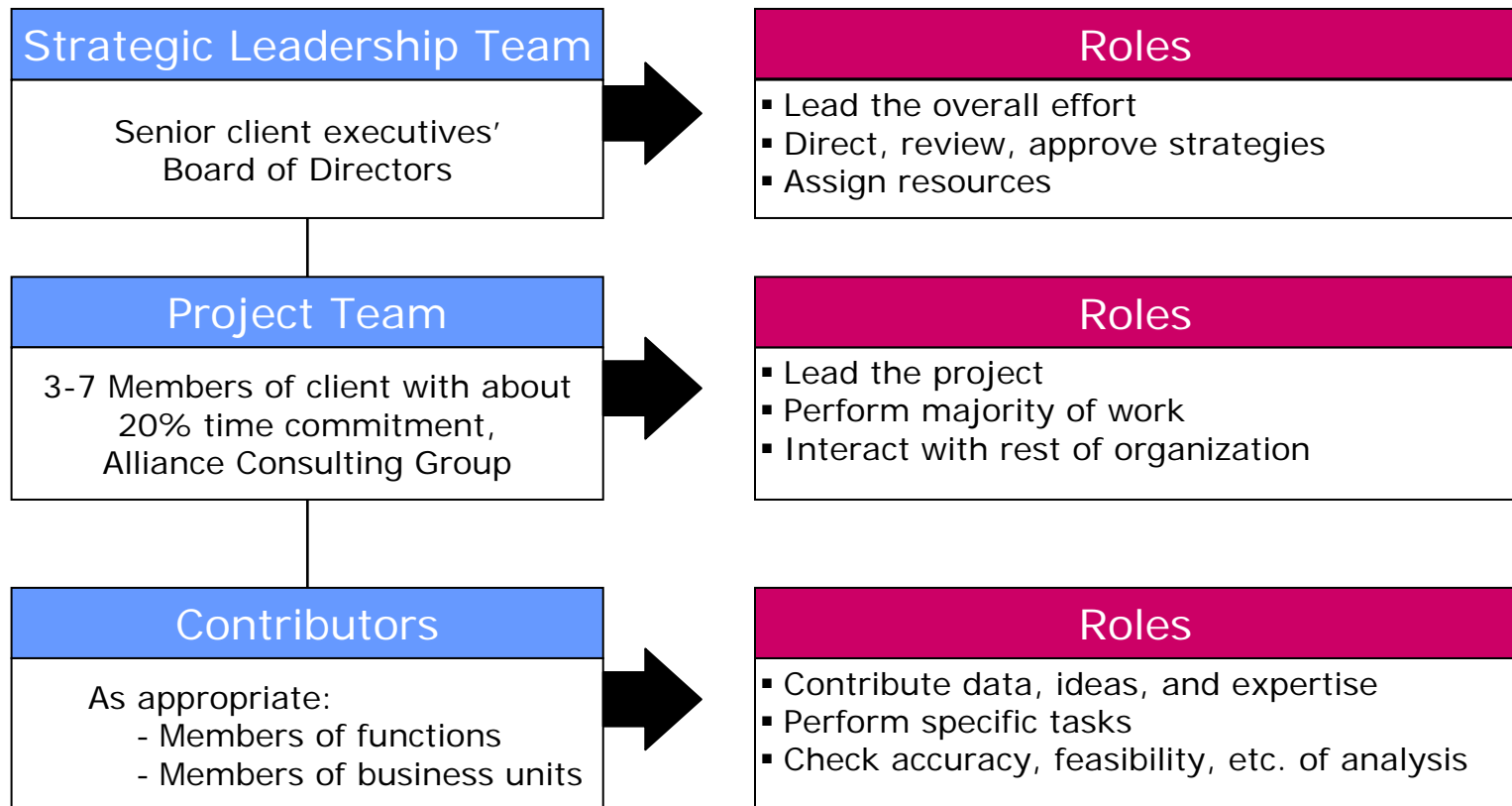
The Elements of Our Approach

- The key elements of our approach are as follows:
 1. **Project Design:** Distinct phases and a clearly articulated work plan provide a well-structured process, deliverables, and review points
 2. **Project Structure:** We suggest specific roles and responsibilities for several layers of management
 3. **Role of Consultant:** The consulting resources contribute a mix of external research, objective analysis, subject matter expertise, and project management
 4. **Simple, but Comprehensive Methodology:** We apply a rigorous, disciplined methodology with rapid focus on the questions that matter
 5. **Disciplined Work Plan:** The project will be managed according to a structured, disciplined plan
- The following briefly discusses these points.

1. Typical Project Design: Phases

- Our experience with successful strategic growth and profit improvement efforts suggest a project design with three distinct phases and work modules with clearly defined deliverables
 - **Phase I: Diagnostic and Focus**
Rapidly examine the company, its position, and performance. Determine the most important opportunities for significant profit improvements and value generation. Determine the *value drivers* and *value detractors*. Prepare review of options and recommendations. Conduct workshop with Board. Focus efforts for Phase 2
 - **Phase II: Develop Detailed Plans for Profit and Value Creation**
Perform detailed process analysis and redesign in the selected areas of highest potential. Prepare business cases where appropriate to justify investments. Prioritize and integrate options in a comprehensive *Value Maximization Plan (VMP)*. Conduct workshop with Board.
 - **Phase : Cascade and Implement**
Assist management as desired in implementing the action plans by orchestrating a disciplined, company-wide high-involvement cascade and change process
- We adjust this structure to the needs of each client

2. Typical Project Structure



3. Typical Role Of Alliance

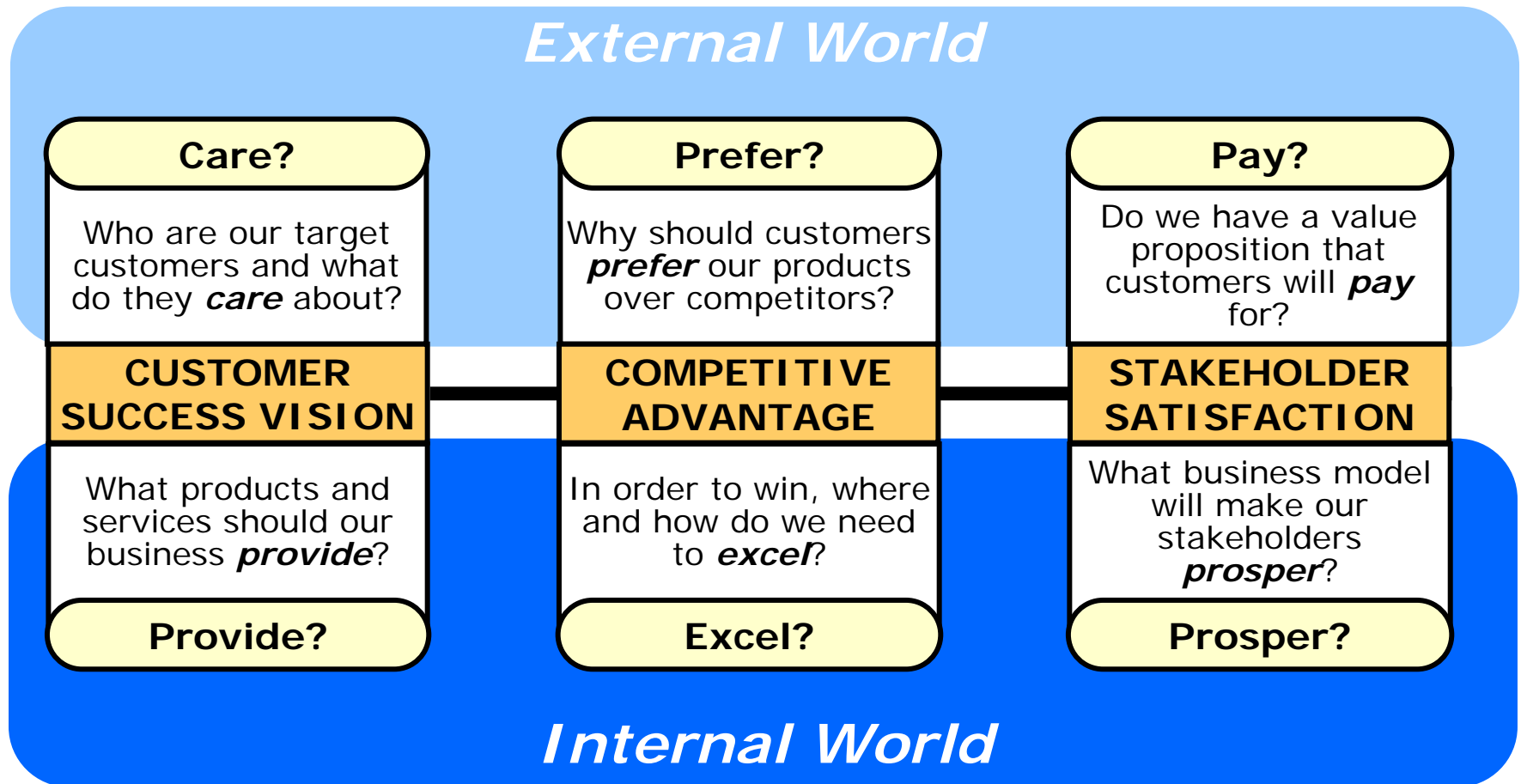


Typical Role of Alliance

- Lead and support the rapid development of data and knowledge necessary to develop a comprehensive diagnostic and plan for profit and value creation
- Contribute relevant expertise, analytical rigor, and experience in structuring the project and leading the data gathering and analytical effort
- Contribute insight, experience, and examples from other industries to design successful business model
- Work with management to build consensus on an implementable strategy and action plan that provides strong competitive positioning and realizes rapid increase in profits and value

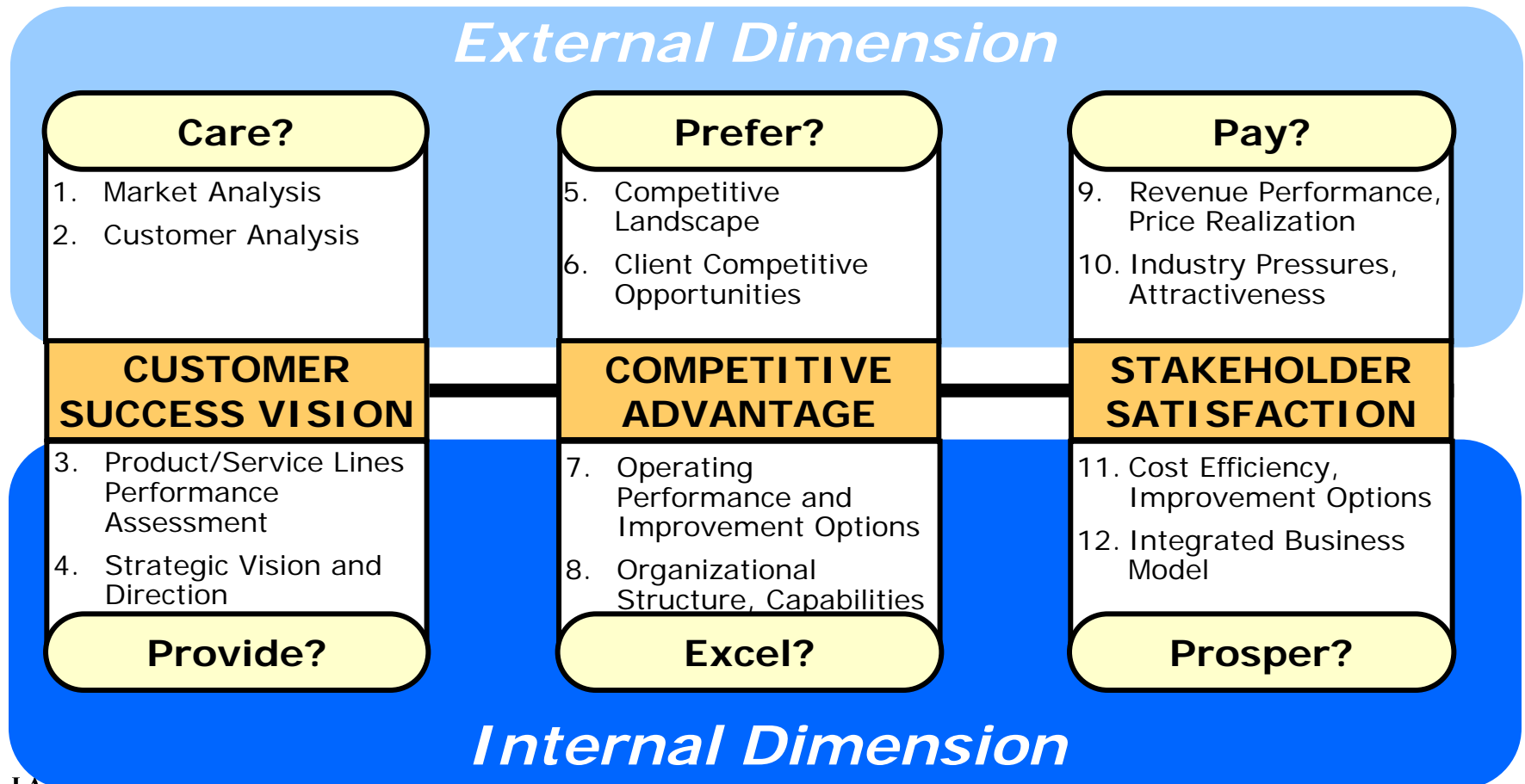
4. Simple, Comprehensive Methodology

- Every successful organization has to find unique answers to a few big questions and align all the parts of the company accordingly.

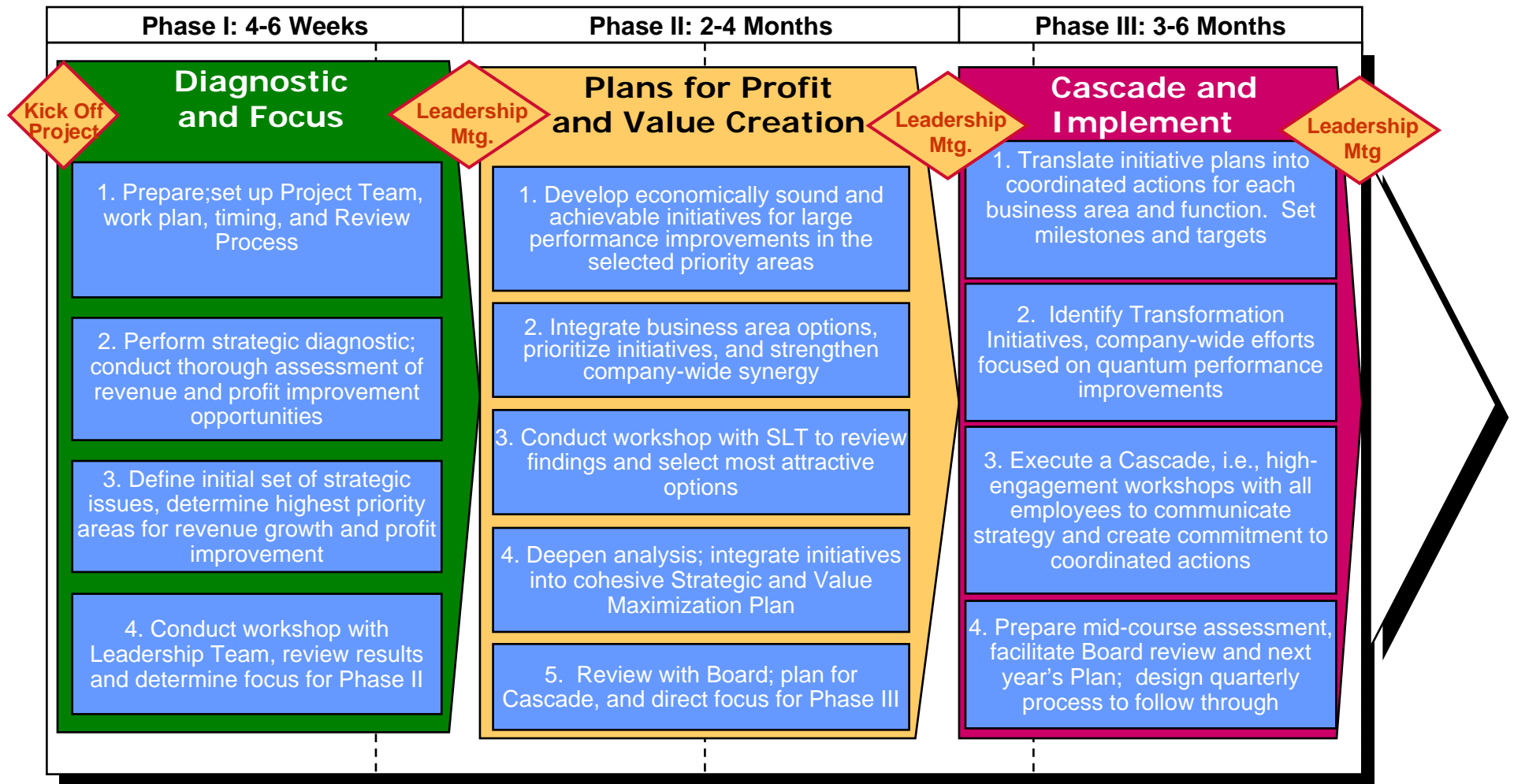


4. A 12-Point Diagnostic Methodology

- A more thorough *Value Maximization Plan* covers twelve topics. Alliance has developed an analytical process and experience base for each of these points



5. Disciplined Work Plan (Example)



Background on Alliance Consulting Group

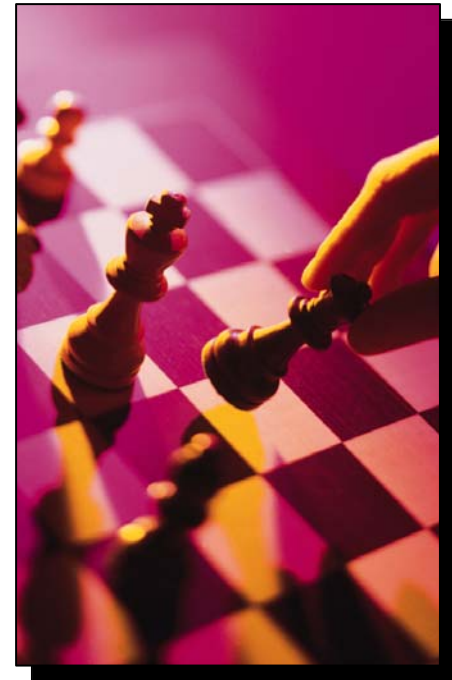
Alliance Consulting Group

- **Profile**

- Founded in 1986 by former partners of The Boston Consulting Group, Bain, and McKinsey
- Over \$100 M in cumulative consulting engagements delivered

- **Expertise**

- Gaining insight based on rigorous analysis and creative business thinking
- Building understanding and a commitment to action
- Generating a high return on the consulting investment



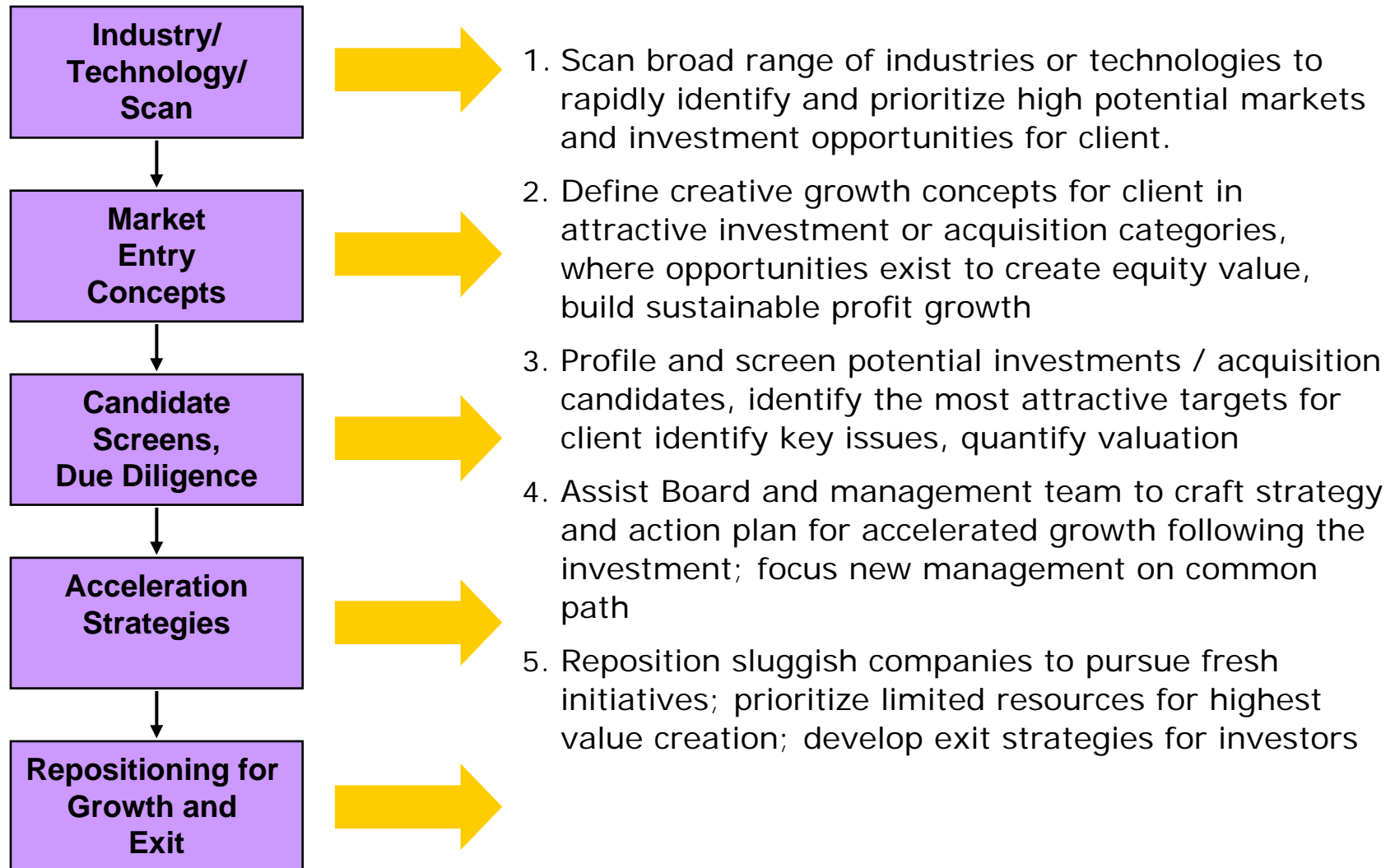
Our Business Focus

Alliance Consulting Group specializes in working with leading companies, primarily in three areas:



In each practice area, we have pioneered and perfected a disciplined methodology, collected best practices, and delivered impressive results.

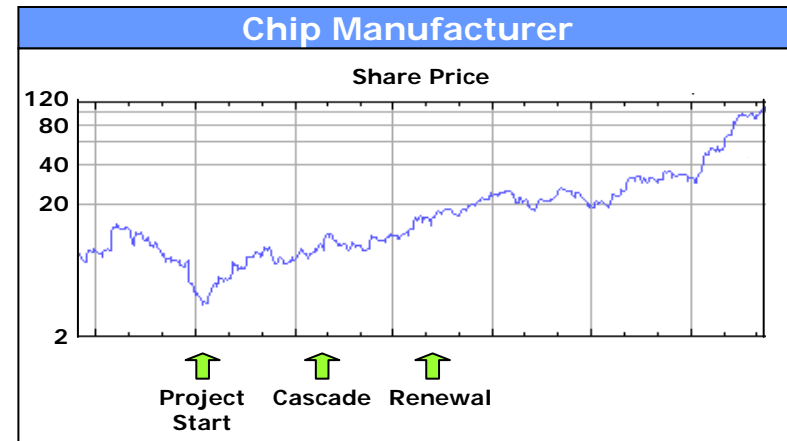
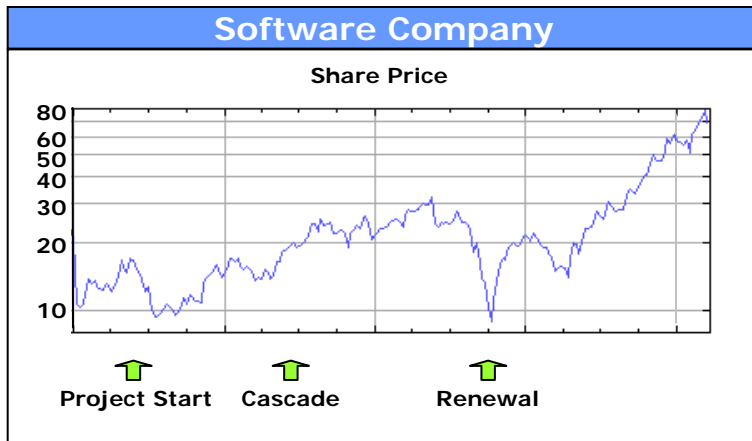
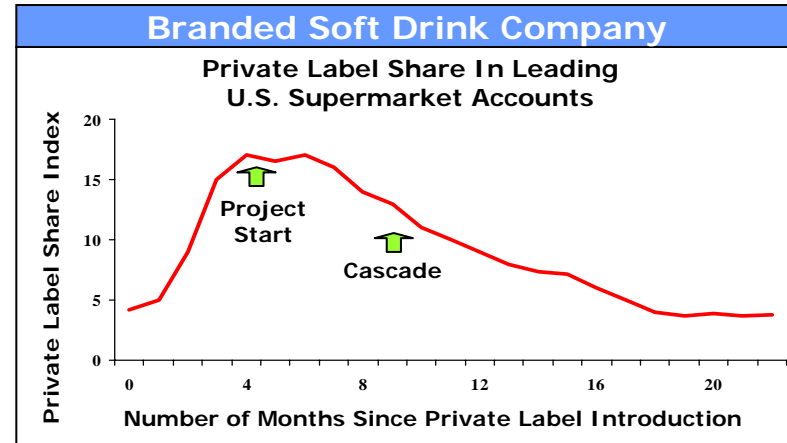
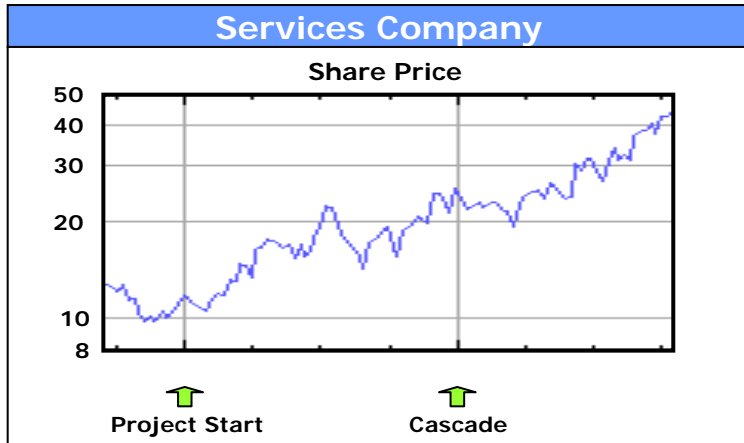
Transaction Support Services To Private Equity, Venture Capital, M&A Clients



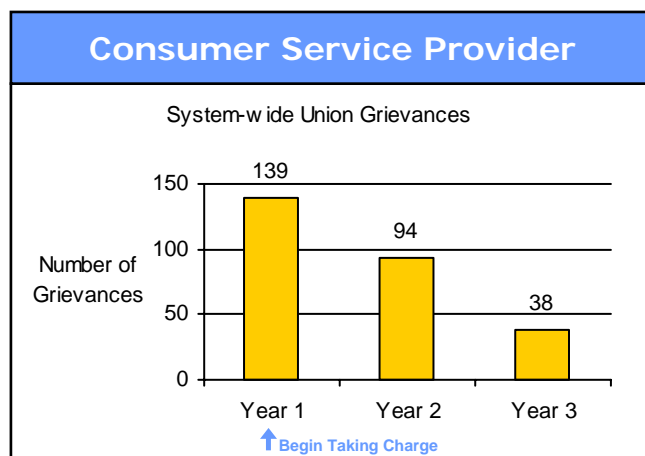
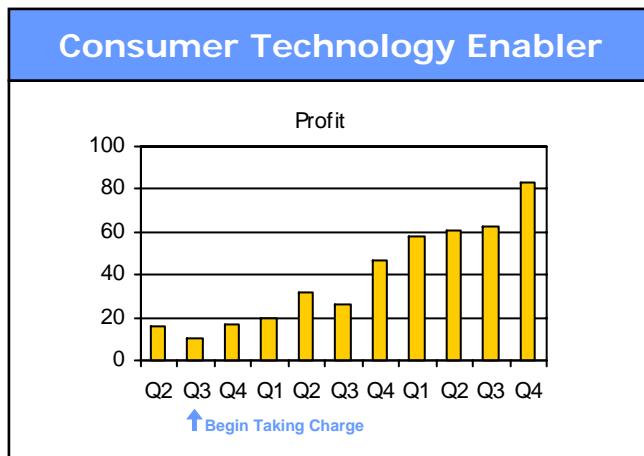
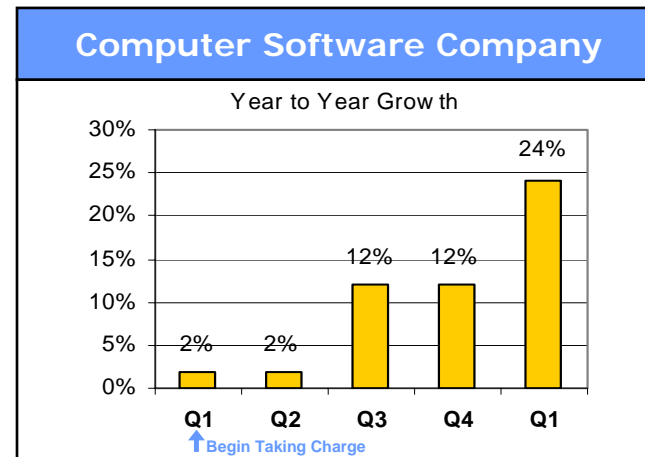
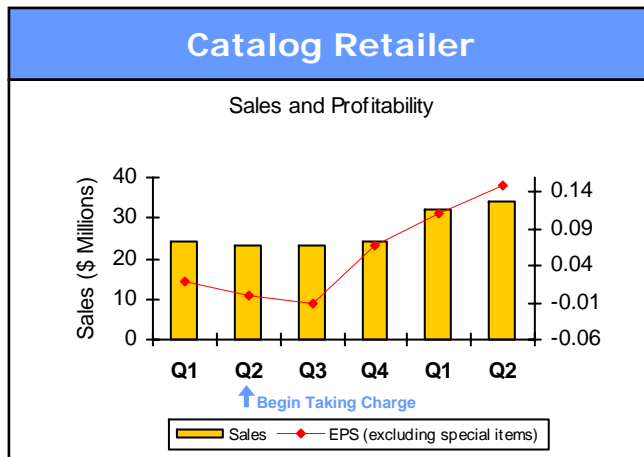
What Alliance Brings To The Effort

- Alliance brings a unique combination of analytical sophistication and people skills to the task. A client described Alliance as “turbo charger and power steering” for his organization because of our ability to accelerate the resolution of complex strategy issues and to ease a change in strategic direction
- The client benefits in several ways from the Alliance approach:
 - **The organization learns from the process:** Alliance forms joint project teams with the client and shares relevant concepts and techniques. The organization continues to improve the strategy after the consulting project is completed
 - **The strategy is owned by the organization:** Involvement throughout the process and attention to the beliefs and personalities of key parties ensure that the results are well understood and supported. Alliance has pioneered a process to build consensus in politically charged business situations
 - **Action and change happen:** The strategy is linked to an assessment of the competencies and business processes of the organization and defines the skill-building and process changes required to succeed with the new strategy. The Alliance approach creates enthusiasm and commitment to action
- Alliance has developed proven concepts and methodologies to rapidly achieve results for its clients

Alliance Has Proven Track Record



Alliance Has Proven Track Record



Representative Clients



Selected Professional Biographies

Michael Norkus

Michael is President and founder of Alliance Consulting Group. Prior to Alliance, Michael was Vice President and Director of The Boston Consulting Group. He holds a Ph.D. in Law and Economics from the University of Hamburg, Germany, a Master of Law from the University of Paris, and an M.B.A. from Harvard Business School.

In his twenty five years of consulting experience, Michael has worked on many growth strategy assignments, specializing in people and knowledge-intensive industries. Major clients include Office Depot, Coca-Cola, IBM Global Services, PRG Schultz, PWC, BDO Seidman, Bell&Howell, and others.

Michael has led senior executive workshops and seminars for a large number of Fortune 500 companies. He has also led several merger, acquisition and divestiture studies. He is a member of the Board of Directors of The Whitehead Institute in Cambridge.

John O'Reilly

John is a Partner at Alliance Consulting Group and manages the firm's financial services and acquisitions practices. He holds an M.B.A. degree from Harvard Business School, and B.A. and M.A. degrees from Cambridge University (U.K.).

John's consulting work has spanned a broad range of strategic issues across a wide range of industries including financial services, media and consumer products. He has managed studies reviewing corporate, business unit and product strategy, as well as examining functional issues such as marketing and distribution. He has also led many assignments evaluating acquisitions, buyouts, recapitalizations and divestitures for both corporate and private equity clients.

Prior to joining Alliance John's management experience includes working as a Group Product Manager for Fidelity Investments and as Vice President of Marketing for General Cinema Corporation. John's consulting experience includes working as a consultant with Bain & Company, and as Managing Director of Knightsbridge Associates. His background also includes serving on the Harvard Business School faculty as a Research Associate.

Selected Professional Biographies

Tony Rhie

Tony is a Partner at Alliance Consulting Group and leads the firm's Consumer Goods and Food and Beverage practices. He holds an M.B.A. from the Kellogg School of Management and a B.S. degree, magna cum laude, in Finance and Marketing from the Wharton School of Business.

In his twelve years of strategy consulting, Tony has lead a wide range of engagements for clients focused around areas such as innovation growth strategies, profit improvement, and marketing and sales effectiveness. His clients have included leading companies in soft drinks, magazine publishing, toys and gaming and themed entertainment. Recent assignments have included repositioning a major cruise line, finding profitable new growth opportunities for a leading beverage manufacturer and improving the marketing effectiveness for a leading toy and gaming company.

Prior to joining Alliance, Tony was a consultant with The LEK Consulting Group where he specialized in value based management and mergers and acquisitions strategies.

Stephen H. Crolius

Steve is a Vice President of Alliance Consulting Group. Prior to joining Alliance, Steve was a Principal of Towers Perrin and a Manager at The Boston Consulting Group. He holds a B.S. in Biology from Stanford University and an M.B.A. from the University of Rhode Island. He has 18 years of consulting experience with a focus on Global 1000 corporations and leads the firm's Retail and Business Services practices.

Steve recently has led strategy assignments for Office Depot, Black & Decker, and Advanced Technology Services. Steve's focus since the early 1990s has been on growth strategy, typically involving integration of competitive analysis with market/customer insights.

Steve's experience in the service sector started in the mid-1990s as services received increasing emphasis in many companies' strategies. Clients for this work included traditional manufacturers, such as Lockheed Martin, looking to add services to their portfolio of offerings, as well as traditional service providers, such as PriceWaterhouseCoopers and the National Institute of Standards and Technology (NIST), looking to expand into new fields.

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