

Case study: Operational Due Diligence

Client: Frozen Foods Co-Packer
Project: Operational Due Diligence

Background and Activities

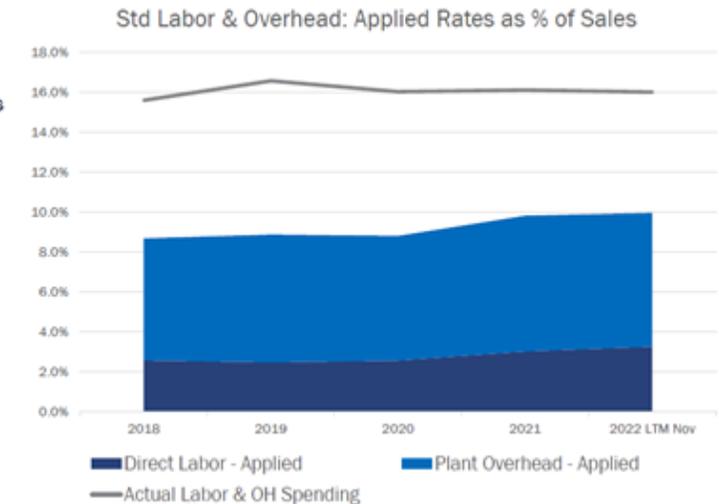
- ODD for PE firm on \$200mn food manufacturer
- <10% margin business with high labor & OH variances
- Scope: (i) identify risks and value-creation opportunities, (ii) identify root causes of low margins, (iii) evaluate measurement systems and KPI reporting; (iv) assess Q&FS systems, (v) assess adequacy of existing facility and evaluate adequacy of new plant strategy and (vi) conduct detailed SKU profitability analysis

Findings & Benefits

- ✓ Identified quick wins & longer-term opportunities to double EBITDA over 24 months (PE firm retained Saphineia post-close to help it capture several opportunities identified during ODD)
- ✓ Identified significant flaws in product costing model
- ✓ Showed that 100%+ of GP\$ came from 10% of SKUs,
- ✓ High levels of excess scrap, run speeds below standard
- ✓ Highlighted significant risk related to a planned expansion project, leading to its postponement
- ✓ Confirmed absence of red flags

What's going on?

- Pricing model flaw: In estimating their standard labor & OH rates, management assumes that every line runs 2 shifts per working day, all year. This is not reality but has the effect of overstating the number of run hours over which they spread their labor and OH costs - which systematically understates its costs relative to actual.
- Lack of clarity on targeted run speeds: need feedback loop so that targets reflect actual performance trends
- Beyond the impact on existing SKUs, the understating of their costs assures large variances on new items as well



“Saphineia performed operational diligence for a bidder on a deal where I represented the seller. I was extremely impressed with how collaboratively they worked with my client’s management team throughout the engagement. They were both respectful and well respected by my client for their manufacturing expertise and sophistication. Their work was thorough, and their conclusions spot on. Saphineia identified significant operational and profit improvement opportunities that provided Saphineia’s client with the confidence to close the transaction...and my client has retained Saphineia for multiple follow-on operational improvement projects.”

— V.P. Investment Banking, leading Food & Beverage M&A Advisor