

Public vs. Private Equity

What Works, What Doesn't

2008 Management Briefing Seminars

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Company Overview

- ▶ \$500M in sales
- ▶ Headquartered in Novi, MI
- ▶ Iron and aluminum castings (1 lb. to 2,000 lbs.)
- ▶ 11 manufacturing facilities (all US)
- ▶ Technical presence in Germany and Japan
- ▶ 2,700 employees
- ▶ De-levered balance sheet
- ▶ Primarily non-union



Diversified Sales

▶ 50% Automotive

▶ 50% Heavy Truck/Industrial

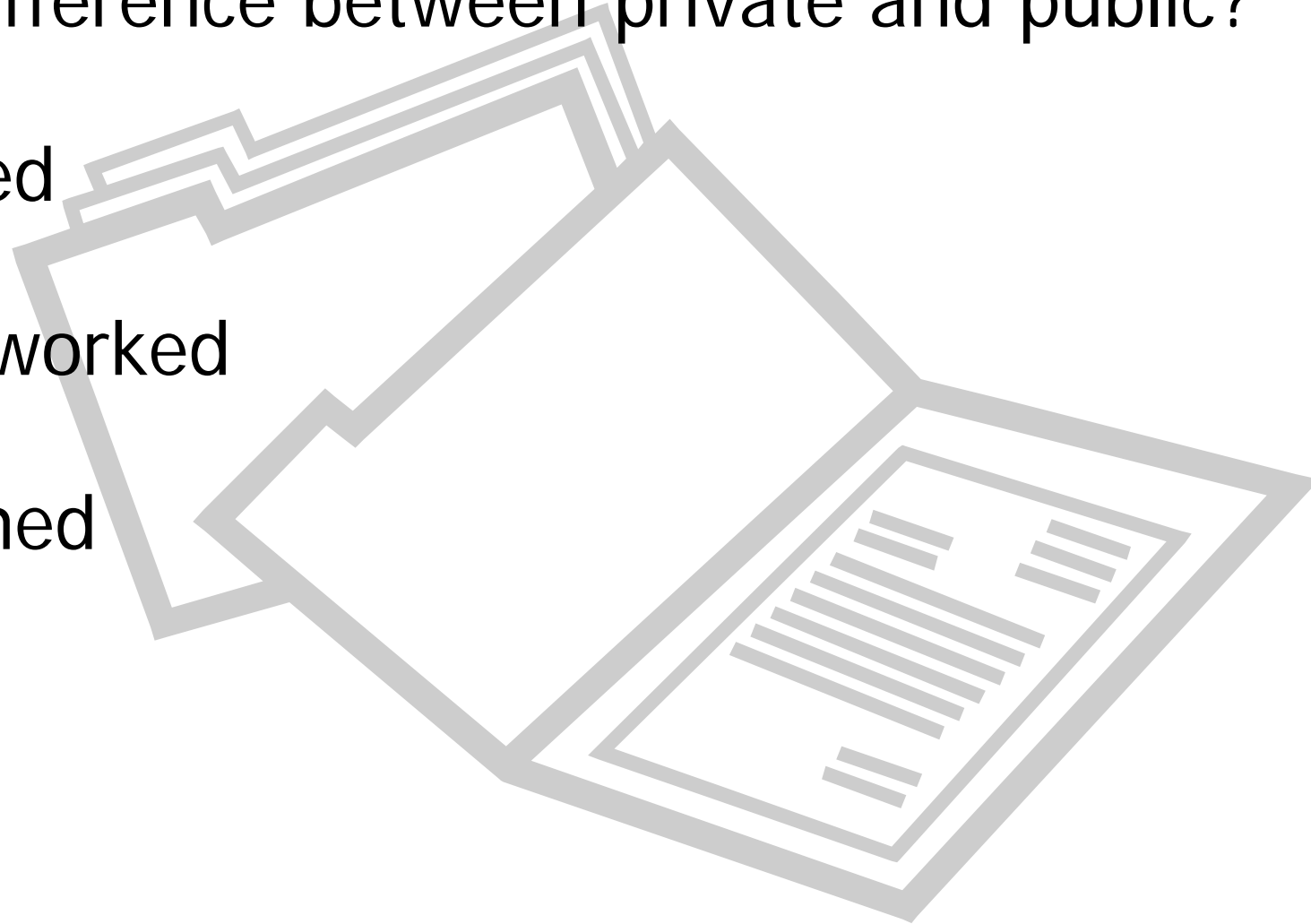


Relevant Experience

- ▶ Private Equity Experience
 - GSC Group
 - GE Equity
 - Wayzata Partners
 - The Trust Company of the West
 - Heartland Partners
 - Bain Capital
- ▶ Public and private company experience
- ▶ Commercial and operations
- ▶ Domestic and international
- ▶ Bought and sold companies seven times
- ▶ 24-year industry veteran
- ▶ OEM (Chrysler) – 10 years
- ▶ Large and small suppliers – 14 years
 - Visteon
 - Dana
 - Echlin
 - Preferred Technical Group
 - New Venture Gear
 - Metaldyne

Discussion Points

- ▶ What's the difference between private and public?
- ▶ What's worked
- ▶ What hasn't worked
- ▶ Lessons learned



What's The Difference?

Public

- ▶ Larger constituency
- ▶ Board and shareholders are typically different
- ▶ Need to manage public perception that drives trading stock
- ▶ Historically, less focused on financials
- ▶ Traditionally, a feeling of entitlement
- ▶ Sometimes hesitant to change

Private Equity

- ▶ Board and shareholders are the same; good alignment
- ▶ Less disclosure required
- ▶ High priority on cash
- ▶ Daily financial focus
- ▶ Change in ownership creates crisis mentality
- ▶ "Change the people or change the people"

What's Worked - Example #1

- ▶ “Change the people or change the people”
 - Company A waited two years before integration began. It later went through Chapter 11 reorganization.
 - Company B eliminated 50% of the vice presidents who weren't “on-board” prior to day one of the merger. The new company was highly successful.
- ▶ *Get your team in-place and begin executing the plan ASAP.*

What's Worked - Example #2

▶ Compensation

- Company A rewarded executives on EBITDA performance. Plant Operations and Sales, however, were rewarded on new business growth, quality and delivery. It took two years to get alignment.
 - Company B aligned the entire organization along consistent objectives. It restructured the company one year ahead of plan.
- ▶ *Align compensation and objectives up-and-down the organization so that there is no misunderstanding of the behavior needed, actions to take and the goal.*

What's Worked - Example #3

- ▶ Return on Investment (ROI)
 - Company A measured ambiguous goals (e.g. “cost of quality”) that made it difficult for employees to understand how they’re contributing to the company’s success.
 - Company B measured financial ROI with realistic paybacks and awarded CAPEX to plants based on the results. It also required people to return 5X their salaries to the company in cost savings and 20X in new sales revenue.
- ▶ *Take ROI to another level throughout the organization so people understand their roles.*

What Hasn't Worked - Example #1

- ▶ Commercial Strategy
 - Company A pulled all technical support from customers and raised prices without warning. Business was de-sourced and the company later went through Chapter 11 reorganization.
 - Company B maintained local support and worked with customers to address raw material price increases. Company maintained current business and was awarded new programs.
- ▶ *It's not what you say, it's how you say it.*
- ▶ *Over-communicate to customers on potential changes (e.g. location, prices, personnel) and work proactively. Everybody will do what's right if it's explained properly.*

What Hasn't Worked - Example #2

▶ Metrics

- Company A didn't have a common operating system across manufacturing operations. Best practices were not capitalized on, launches went awry and customers were confused.
 - Company B implemented a common operating system within 30 days of acquisition. It allowed a common practice for customers, enabled synergies across the organization and drove a common culture.
- ▶ *Pick common metrics and a process to implement and go with it..... fast. "Don't recreate the wheel."*

What Hasn't Worked - Example #3

- ▶ Sales growth
 - Company A increased sales at all costs, even paying 13X EBITDA to acquire another company to increase the top line. It later went through Chapter 11 reorganization.
 - Company B only accepted profitable sales even if it had to consolidate operations, eliminate product lines and close plants.
- ▶ *Smaller and profitable is okay; large and unprofitable isn't. Adjust capacity to demand.*

Citation's Transformation

- ▶ Further diversifying the business to take advantage of market opportunities
- ▶ Reacting quickly to the downturn in the light truck market
- ▶ Rightsizing automotive capacity to meet demand
- ▶ Growing with the new domestic manufacturers
- ▶ Taking advantage of the weak dollar
- ▶ Maintaining a de-levered balance sheet
- ▶ Strong shareholder support

Market Opportunities

- ▶ Agriculture
- ▶ Heavy Truck
- ▶ Military
- ▶ Valve & Fittings
- ▶ Construction
- ▶ Pumps & Compressors
- ▶ Irrigation
- ▶ Industrial

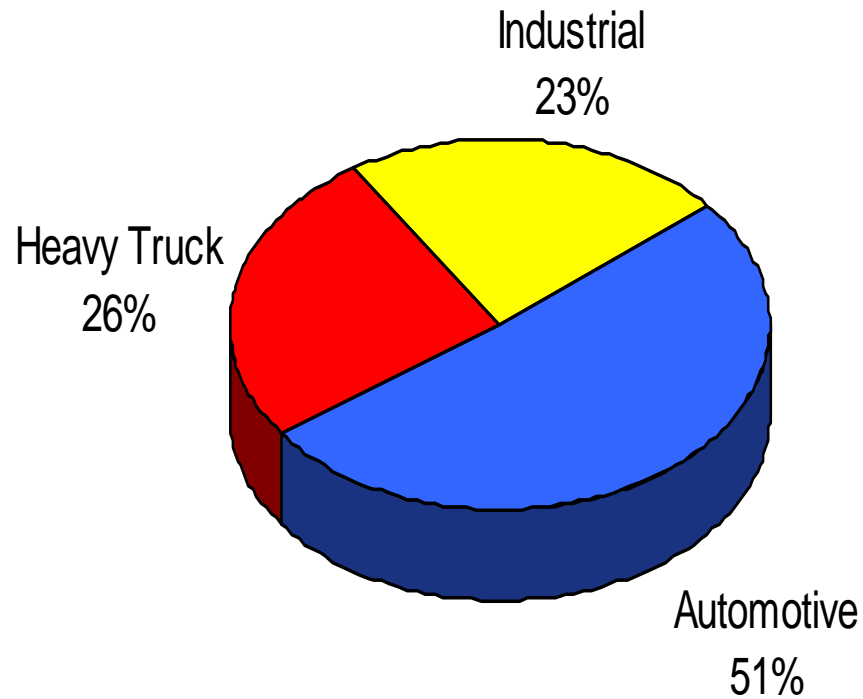


Current & Potential Customers

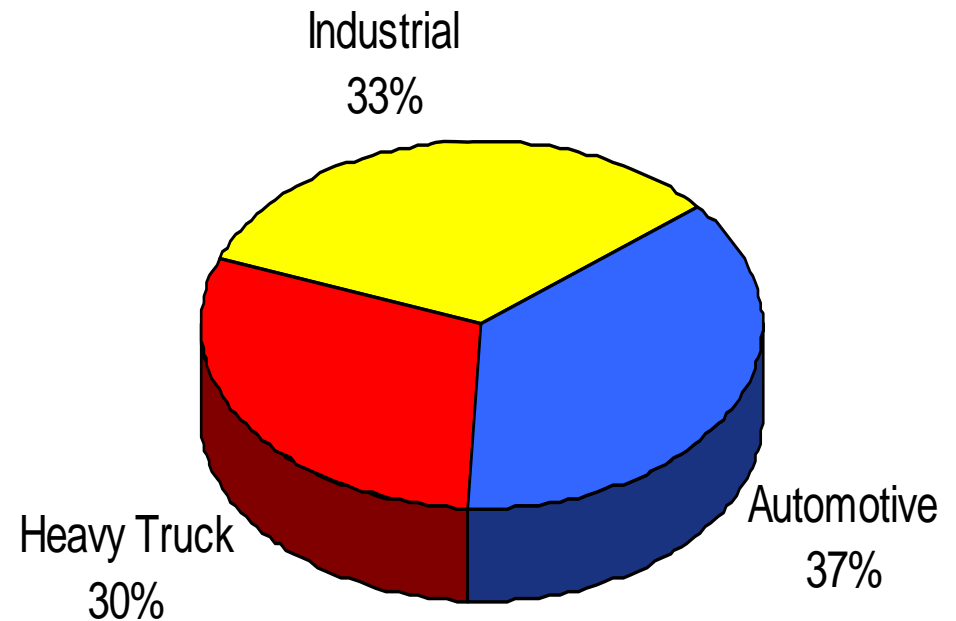


A More Diversified Company

“Old” Citation



“New” Citation



Public and Private Companies

- ▶ The type of ownership is only one piece of a successful organization
- ▶ Depending upon circumstances and market conditions, that ownership may change (e.g. IPO)
- ▶ To succeed, every company needs:
 - Solid leadership
 - A clear and consistent strategic direction
 - Alignment of objectives throughout the entire organization
 - Proactively address issues and opportunities on a timely basis...."don't sit still"

Summary

- ▶ Align your plan throughout the organization
- ▶ Stay laser-focused on the plan
- ▶ “Disciples” are key
- ▶ Manage expectations
- ▶ Drive value not mass
- ▶ Communicate, communicate, communicate

Provides focus, capital and a platform for change