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Data Analytics: Do A Better Deal



Agenda

- What is Data Analytics?
- What issues does Data Analytics help solve?
- What are potential benefits of Data Analytics?
- Tales from the trenches

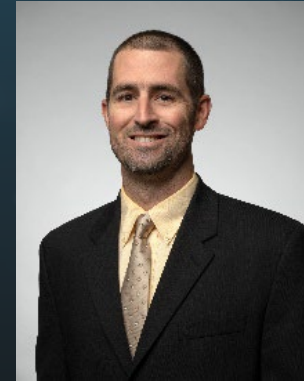
Meet the Presenters

Chris Veith



Chris Veith
Director, Analytics
270.781.0111
chris.veith@forvis.com

Matt Klauser



Matt Klauser
Partner, Transaction Advisory
816.206.3952
matt.klauser@forvis.com

Polling Question



What primary industry best describes your organization?

- Manufacturing & distribution
- Professional services
- Software & technology
- Healthcare

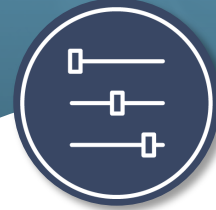
What Is Data Analytics?



We utilize client & publicly available data sets to create products or standalone analytics that facilitate quicker & more accurate decision making



Financial statement analytics utilize a four-step process to enhance the relevance, accessibility, & integrity of underlying financial data



We use a variety of technology tools to achieve these objectives

What Issues Does Data Analytics Help Solve?



Buyer crafting & confirming its investment thesis



Buyer understanding where the Seller makes money, & why



Seller indicating “we can’t get you that data” or “the file is too large”

What Data Is Critical to Explaining the “Why”?

Sales price/
Volume
Analysis



Labor
utilization &
realization



ARR,
customer churn,
retention,
& lifetime value



Project
Estimating
Accuracy



Reimbursement/
Collection
Trends



Commodity
pricing &
Ability to pass
through cost
increases



Margins by
SKU &
inventory
turnover by
SKU



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What Are the Potential Benefits of Data Analytics?



Minimized surprises by identifying & addressing issues early

Increased buyer confidence

Increased seller credibility with financial information

An objective analysis of the business for presentation to potential buyers

Acceleration of transaction timeline

Increased seller awareness of critical deal component & decision points

Manufacturing & Distribution Case Study 1

- Margin Analysis at the contribution margin level
- Price/volume analysis

Background

- Specialty food manufacturing in the \$40-50M revenue range.
- Significant manufacturing variances in all areas, material costs, labor, production, overhead.
- Newly installed high-speed production line not fully utilized yet.
- Management had concerns around overhead application rates causing goods to be over-priced in the market.

Solution

- Built upon an initial SKU level analysis of contribution margin
- Compare run-time with engineering standards & actual outputs to get appropriate measure of efficiency & utilization
- Compile contribution margin based on current SKU mix & volume going through each production line
- Allows for what-if scenario analysis of changing mix, performing targeted sales strategies or opening additional targeted skeleton shifts

Results

- Seller was able to understand how SKU level margin would perform once normal operating capacity was achieved
- Seller was able to calculate a pro forma adjustment incorporating a nominal operating environment

Polling Question



Have you ever been told “we can’t give you that” when requesting information from an organization?

Yes



No



Manufacturing & Distribution Case Study 2

- Material cost analysis
- Cost development by SKU from scratch

Background

- Plastic products manufacturing with \$100M+ revenue.
- Resin cost changes were not passed through to customers, creating fluctuations in material margin.
- Seller was able to provide standard gross margin by SKU, but not material margin.
- Seller had been experiencing a shift in product category mix, with its primary category having the highest material margin.

Solution

- Obtained the bill of materials by SKU & annual raw material costs.
- Developed material costs by SKU from scratch.
- Quantify the impact of movements in material margin by (i) change in mix & (ii) change in resin costs.

Results

- Buyer was able to evaluate the business under various resin cost scenarios.

Software & Technology Case Study

- Segmentation analysis across multiple fields

Background

- Software vendor providing SaaS, HaaS, UCaaS, & project-based services in the \$60M revenue range.
- Had good internal data spread across multiple ERP systems.
- Trouble identifying type of revenue at the individual transaction/invoice level.

Solution

- Analysis that segmented data across multiple fields
- Provided transaction level summary data that correlated to reported financials
- Allocated revenue journal entries to the appropriate transaction level entries within the data cube

Results

- Transaction level data without significant reconciliation
- Allocated revenue journals that eliminated noise in the customer churn & revenue retention analyses.

Business Services Case Study

- Billings & employee hours analysis

Background

- Add-on in the healthcare research industry
- Cash to accrual conversion needed
- Revenues were recognized as billed

Solution

- Obtained billings & employee hours by project, as well as employee billing rates
- Analyzed historical financials with pro forma GAAP presentation (Buyer needed for post-closing covenant purposes)

Results

- Billings were very seasonal, causing significant fluctuations in reported revenue. On an accrual basis, LTM revenue decreased 10% compared to reported revenue.
- Based on recent headcount levels, hours per employee, & billing rates, projected revenue by Seller appeared to be 17%-22% overstated.

Polling Question



Have you ever struggled to analyze a cash basis organization?

Yes



No



EBITDA Bridge Case Study

- Bridging EBITDA to achieve a better understanding of all cost drivers in an entity.

Background

- Generic EBITDA bridges are often provided that do not help understand specific changes in the business.

Solution

- Identifying all major cost components inside the P&L that drive margin.
- Breaking all cost drivers into price & volume components.
- Recalculation of every transaction where needed.

Results

- Bridging EBITDA to achieve a better understanding of all cost drivers in an entity.

Annual EBITDA Bridge – Simple Version

Annual EBITDA Bridge Analysis

FY20 EBITDA	1,316	FY21 EBITDA	2,616	FY22 EBITDA	2,538
Change in sales	2,437	Change in sales	1,373	Change in sales	(480)
Change in cost of goods sold	(813)	Change in cost of goods sold	(1,598)	Change in cost of goods sold	(1,758)
Change in SG&A expenses	(319)	Change in SG&A expenses	147	Change in SG&A expenses	(271)
Change in other income	(5)	Change in other income	-	Change in other income	65
	<hr/>		<hr/>		<hr/>
FY21 EBITDA	2,616	FY22 EBITDA	2,538	FY23 EBITDA	94

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Annual EBITDA Bridge – Expanded Version

Annual EBITDA Bridge Analysis

FY 20 EBITDA	1,316	FY21 EBITDA	2,616	FY22 EBITDA	2,538
Unit price increases	1,636	Unit price increases	663	Unit price increases	1,109
Volume/mix	728	Volume/mix	563	Volume/mix	(1,136)
Discounts/rebates	(75)	Discounts/rebates	78	Discounts/rebates	137
Fx	148	Fx	69	Fx	(590)
Primary RM cost	(1,307)	Primary RM cost	(204)	Primary RM cost	(63)
Secondary RM cost	(71)	Secondary RM cost	1	Secondary RM cost	(67)
Inbound rail costs	1,185	Inbound rail costs	(1,112)	Inbound rail costs	(945)
Efficiency Savings	333	Efficiency Savings	27	Efficiency Savings	90
Packaging costs	48	Packaging costs	(223)	Packaging costs	(629)
Freight-Out rates	(19)	Freight-Out rates	(112)	Freight-Out rates	200
Direct labor rates	(119)	Direct labor rates	461	Direct labor rates	52
Indirect labor costs	(114)	Indirect labor costs	(402)	Indirect labor costs	(183)
Fixed overhead costs	(750)	Fixed overhead costs	(33)	Fixed overhead costs	(212)
SG&A	(319)	SG&A	147	SG&A	(271)
Other income	(5)	Other income	(0)	Other income	65
FY21 EBITDA	2,616	FY22 EBITDA	2,538	FY23 EBITDA	94

Other Capabilities



Impact of commodity pricing & ability to pass through cost increases



Gain/fade analysis & impact estimating accuracy has on interim period results



Waterfall analysis & impact collection rate has on quality of revenue in healthcare entities

Polling Question



Are you interested in having a FORVIS representative follow up on how we can help your organization use data to do a better deal?

Yes



No



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Thank you!

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