

PPAI

North American
Leadership
Conference™

Connection.
Collaboration.
Leadership.

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Rust Never Sleeps, Neither Should Your Cash:
Private Equity Lessons Applicable For Every Business



Yes, I am a private equity CEO and investor.

But this is not an infomercial for private equity...



However, the numbers don't lie...

Over the past 30 years, PE-backed companies have generated **62% higher average net returns** than the S&P 500 benchmark.

[Source: Bain & Co. Report 2/24/20]



However, the numbers don't lie...

Investors have followed the returns and have poured over **\$2 Trillion dollars** into private equity over the past 10 years, alone.

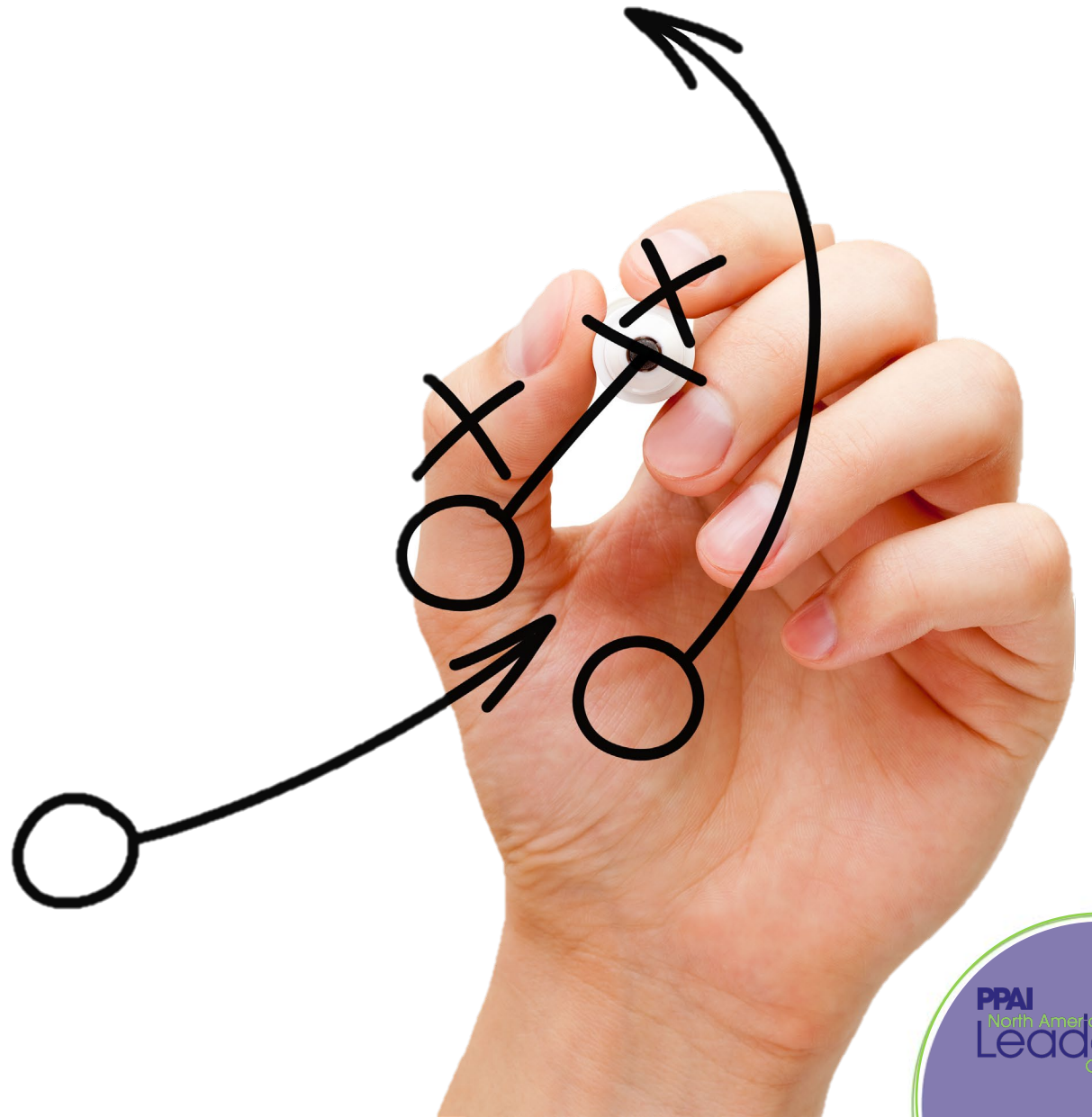




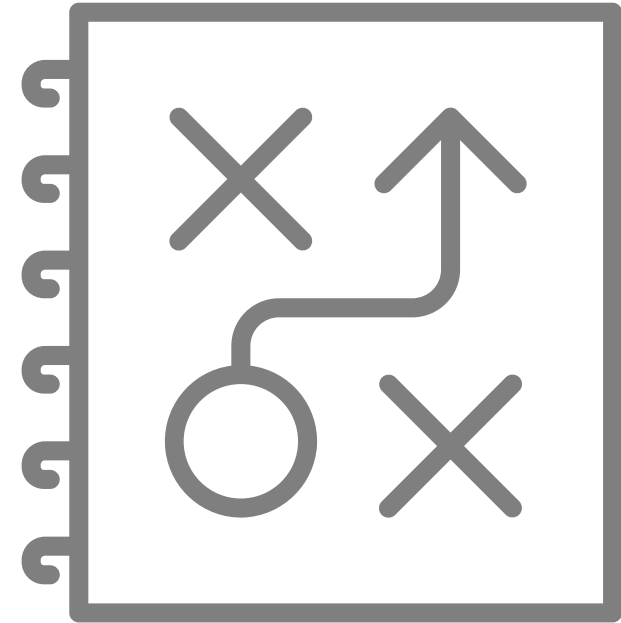
Beyond the basic lesson in economics,
why does this matter to us?

Initially, private equity earned significant returns primarily through financial engineering

Over time, private equity had to develop a repeatable, scalable, playbook for generating operating value

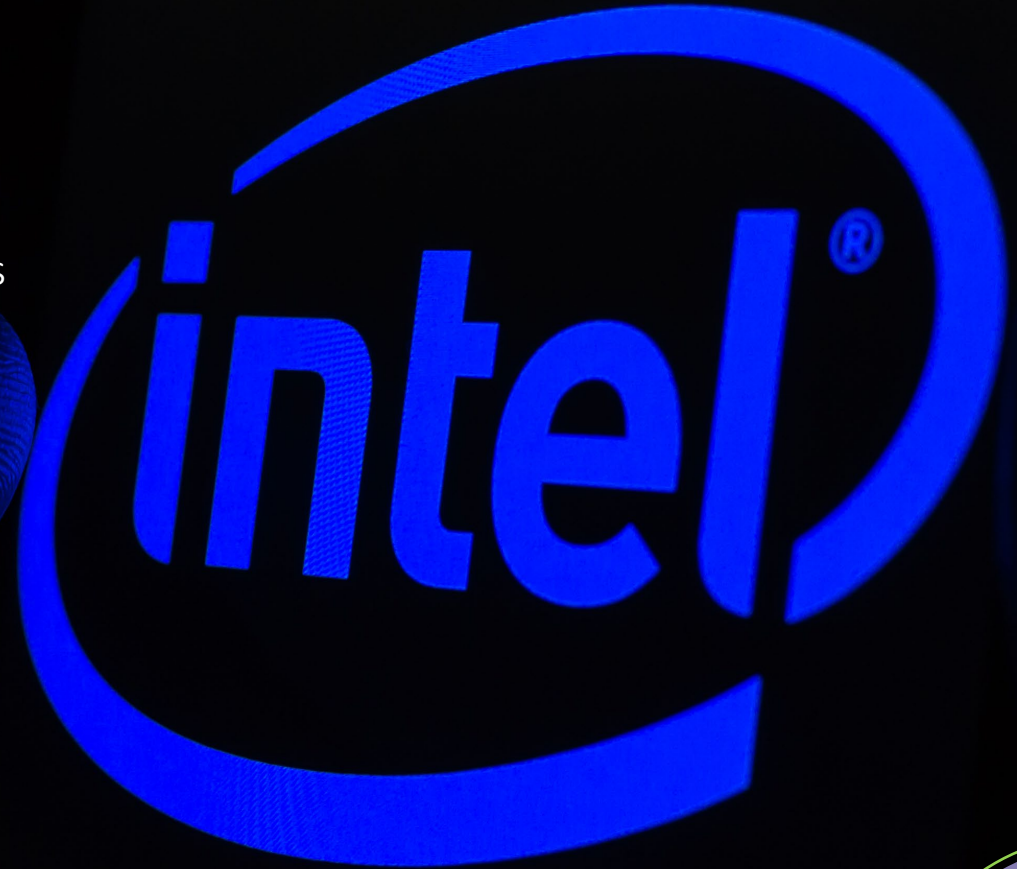


Four key plays in the
Operating Value
Creation playbook



[#1] Define your *full-potential-thesis*

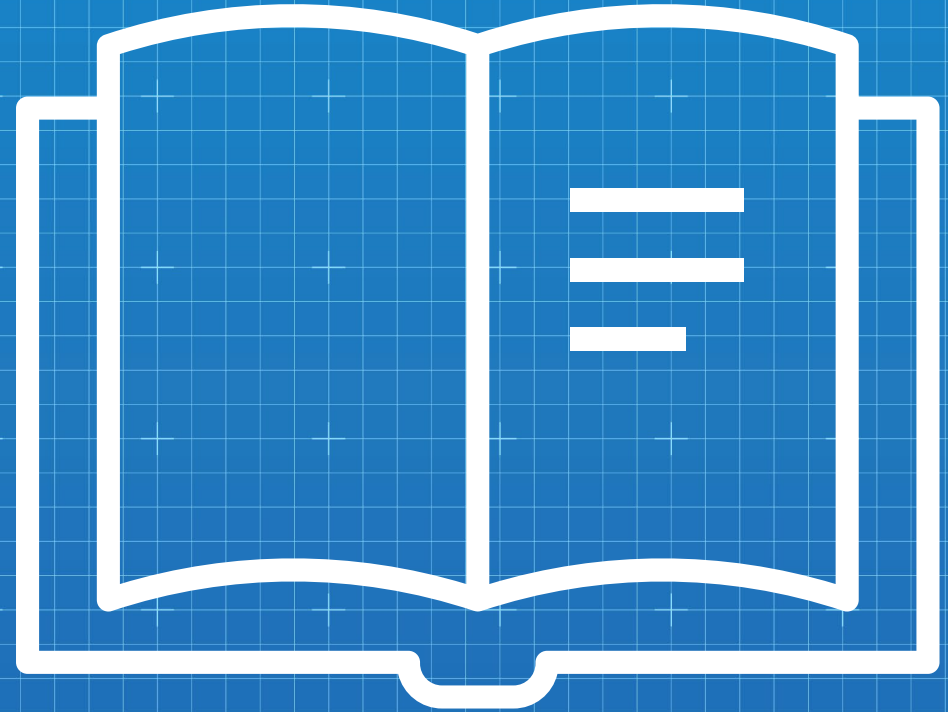
- This requires separating yourself from where you are, and objectively evaluating where you can be
- You must look equally outside your business (at market factors, competitive landscape, etc.) as you do within your business
- Must be disciplined in this process to filter out the biases of the moment, or the past, and settle on the key factors that will lead to the identified optimal outcome



[#2] Develop the Blueprint – the who, what, when, where, how

The blueprint is the operating plan that takes the identified key initiatives and turns them into results

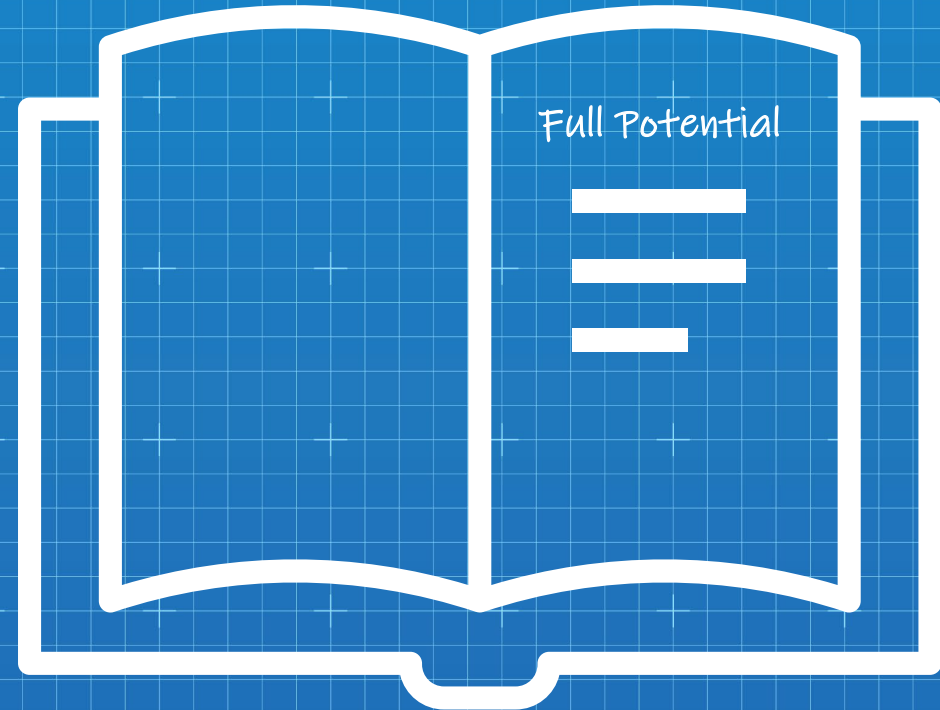
No company can be successful when it divides its resources across too many initiatives



[#2] Develop the Blueprint – the who, what, when, where, how

Zero in on the key initiatives identified in the Full-Potential Thesis prioritized by those that will create the most value for the company in the medium term

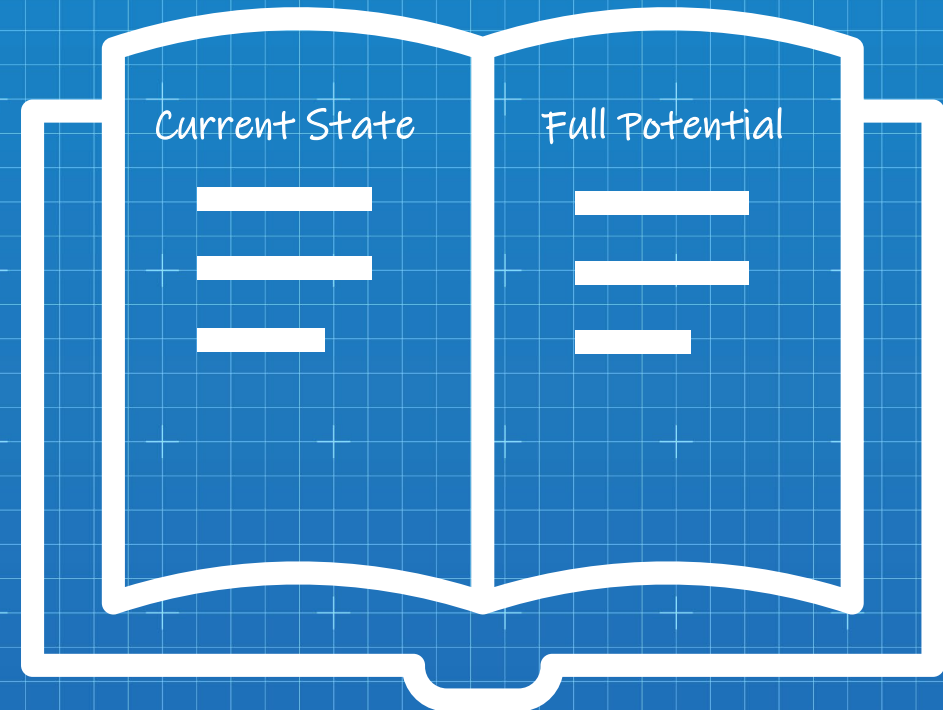
Emphasis should be place on measurable actions. Start with high-level moves and work your way down to things you can actually do differently, now



[#2] Develop the Blueprint – the who, what, when, where, how

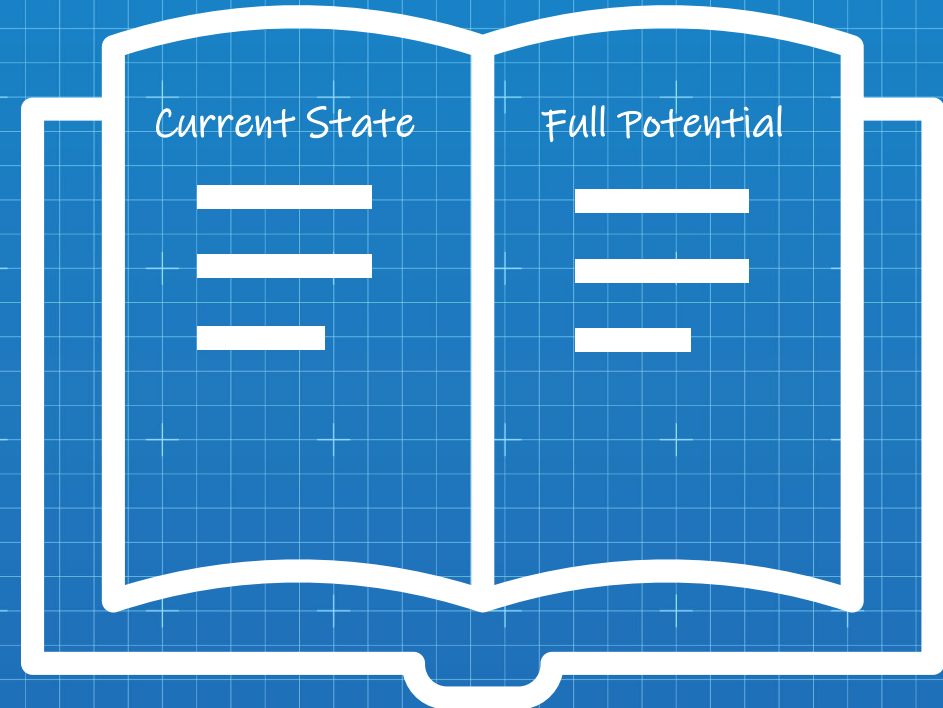
Now work from right-to-left, establishing what it will take, incrementally, to get from where you want to be to where you are

If you stumble in the exercise, just restart on the right side, and sequentially work your way back to where you are today



[#2] Develop the Blueprint – the who, what, when, where, how

Starting from where you want to be, and bridging to where you currently are, you have established a blueprint...



[#3] Accelerate Performance in 3 key steps

[1]

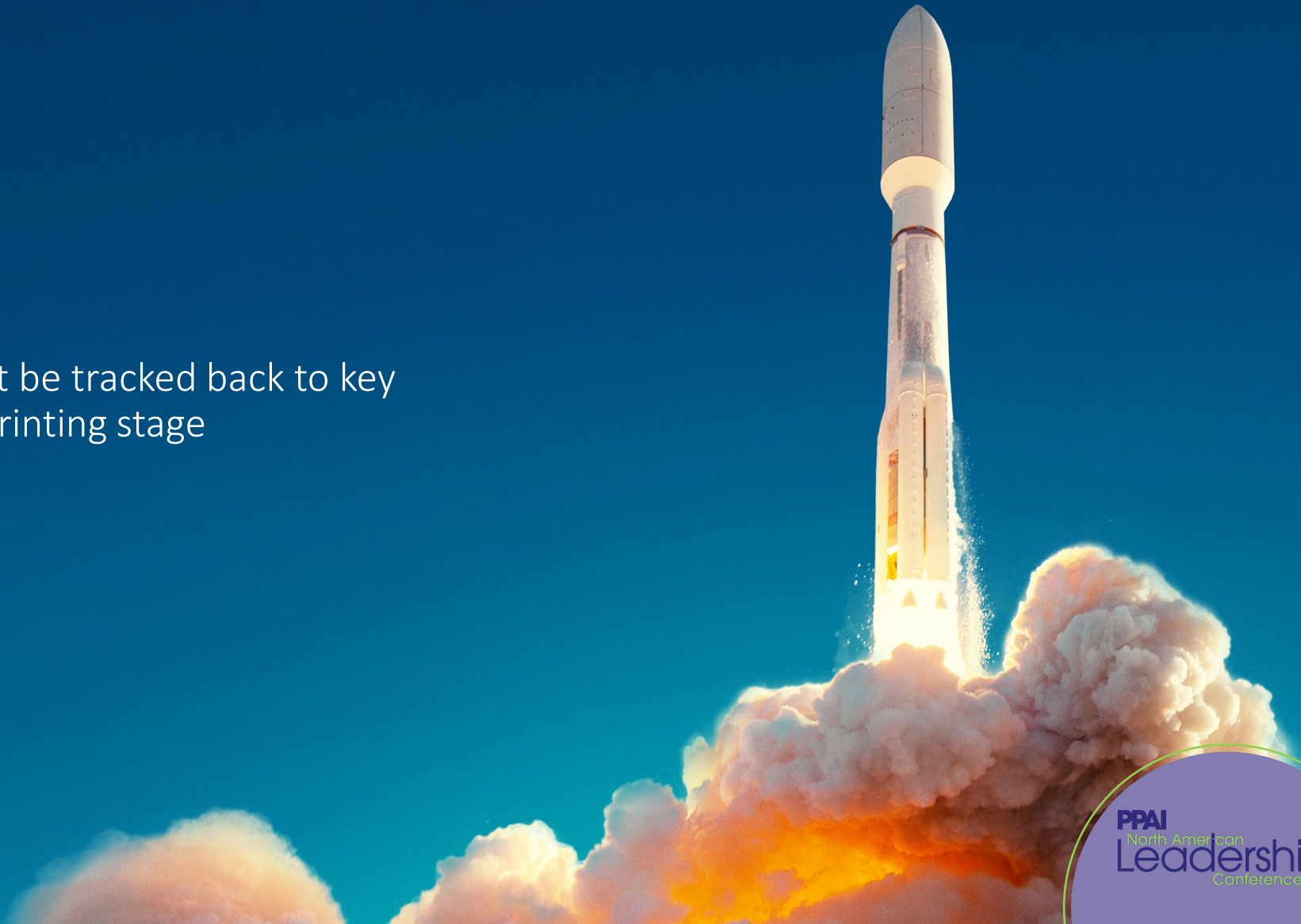
Establish ownership throughout the organization



[#3] Accelerate Performance in 3 key steps

[2]

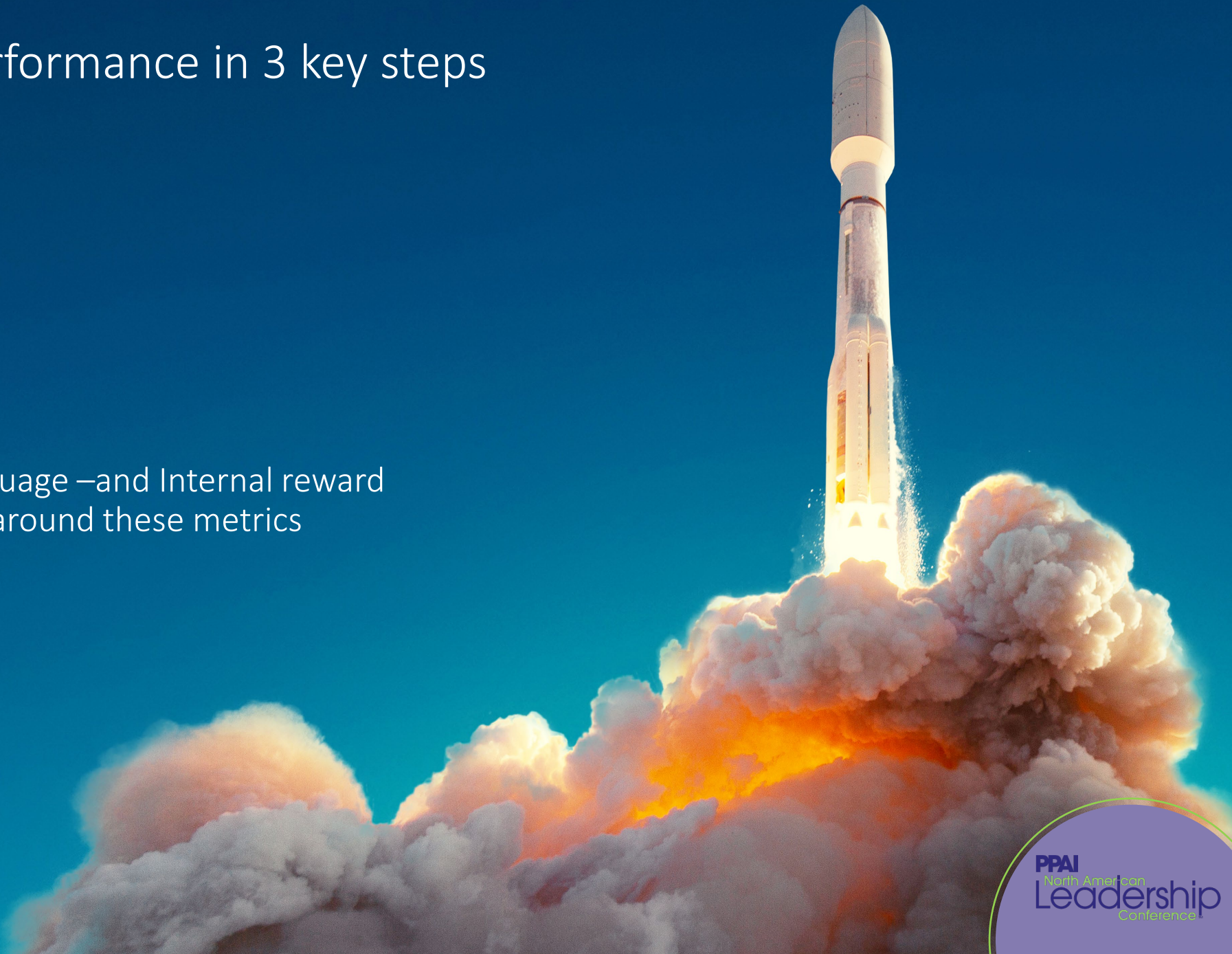
Progress and momentum must be tracked back to key metrics identified in the blueprinting stage



[#3] Accelerate Performance in 3 key steps

[3]

The company's entire language –and Internal reward systems—should be built around these metrics



[#4] Harness the Talent

— *Jim Collins, Get the right people on the bus*

There are really three parts of this question of the right people on the bus:

- Are right people on the bus?
- Get the wrong people off the bus
- Are the right people in the right seats?

Financial engineering – Make Equity Sweat

“Chris, you have a lot of cash on your balance sheet.”
– Chris’ Original Private Equity Sponsor

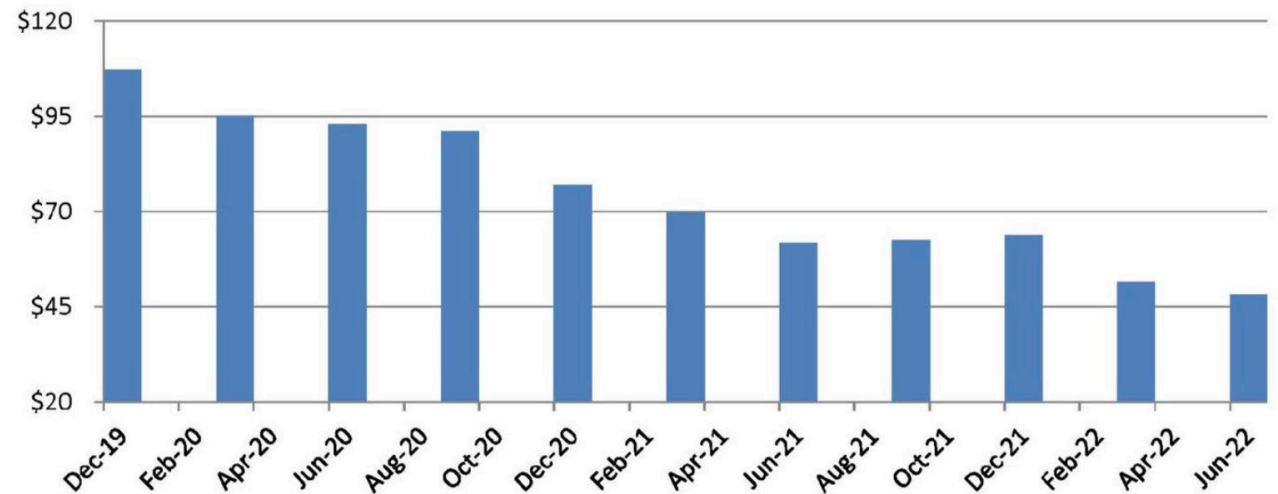
Financial engineering – Make Equity Sweat

Apple's cash position is plunging (from \$107 Billion at the end of 2019, to \$48 Billion in June 2022, a decline of 55%)

..And that's positive for **both** the business *and* the company's shareholders

Apple's incredible shrinking cash hoard

Apple's quarterly totals of cash & short-term investments (in \$ billions)



Source: FactSet

Financial engineering – Make Equity Sweat

“When a man knows he is to
be hanged in a fortnight, it
concentrates his mind
wonderfully.”
– Samuel Johnson



Foster a results-oriented mindset

Be at Cause

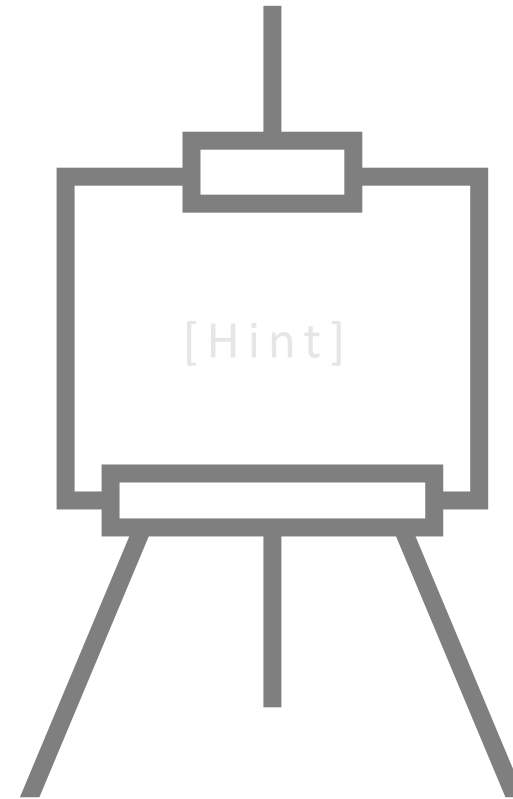
Vs. at Effect

Resetting the Hurdles

- Times change, markets change... so adjust hurdles accordingly
- In a high-performing, high accountability culture company, *everybody* owns the challenge
- Each team member owns their *own* hurdles and the entire outcome



Where do I start?



WHITE BOARDING: Overview

An Exercise Whereby a Group of People Who Share a Common Objective Work Together to Identify and Map Out Challenges and Determine the Optimal Strategy for Improvement


Differentiators*

Concepts are **6x more memorable** if they're presented as pictures rather than words

Hand-drawn graphics, such as stick figures, make **more of an impact** than professional photographs

White Boarding has a **higher engagement, enjoyment, credibility, recall and persuasive impact** than other meeting formats

* Source: Zakary Tormala, associate professor of marketing, Stanford Graduate School of Business.

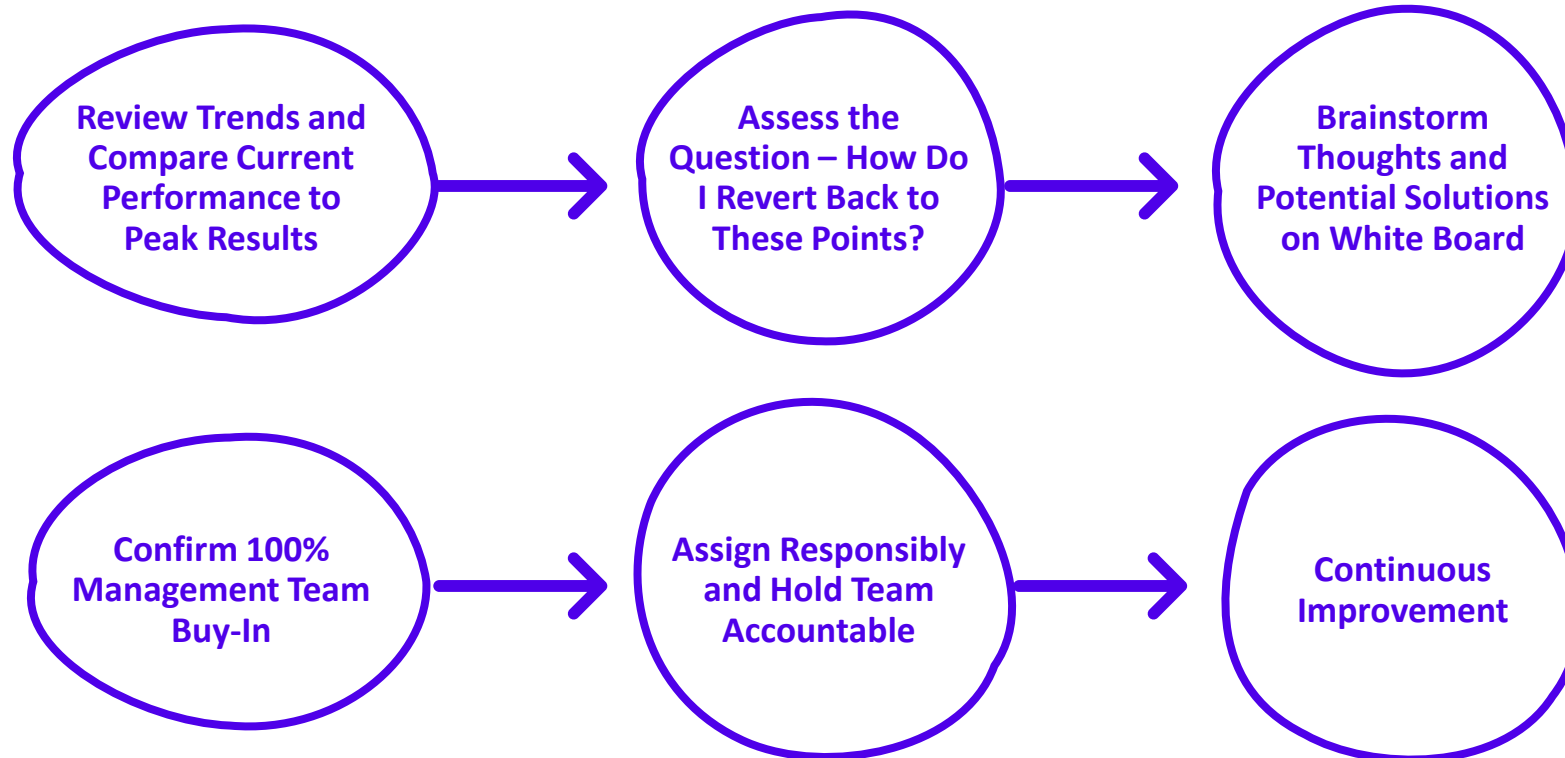
The background of the slide is a corkboard. The word "TIPS" is spelled out using wooden block letters. A hand is visible in the upper right corner, holding the letter "S".

White Boarding: Tips

- ✓ Start with a big idea
- ✓ Keep it simple
- ✓ Organize the layout of thoughts
- ✓ Think aloud while drawing
- ✓ Demand participation
- ✓ Keep records and follow-up

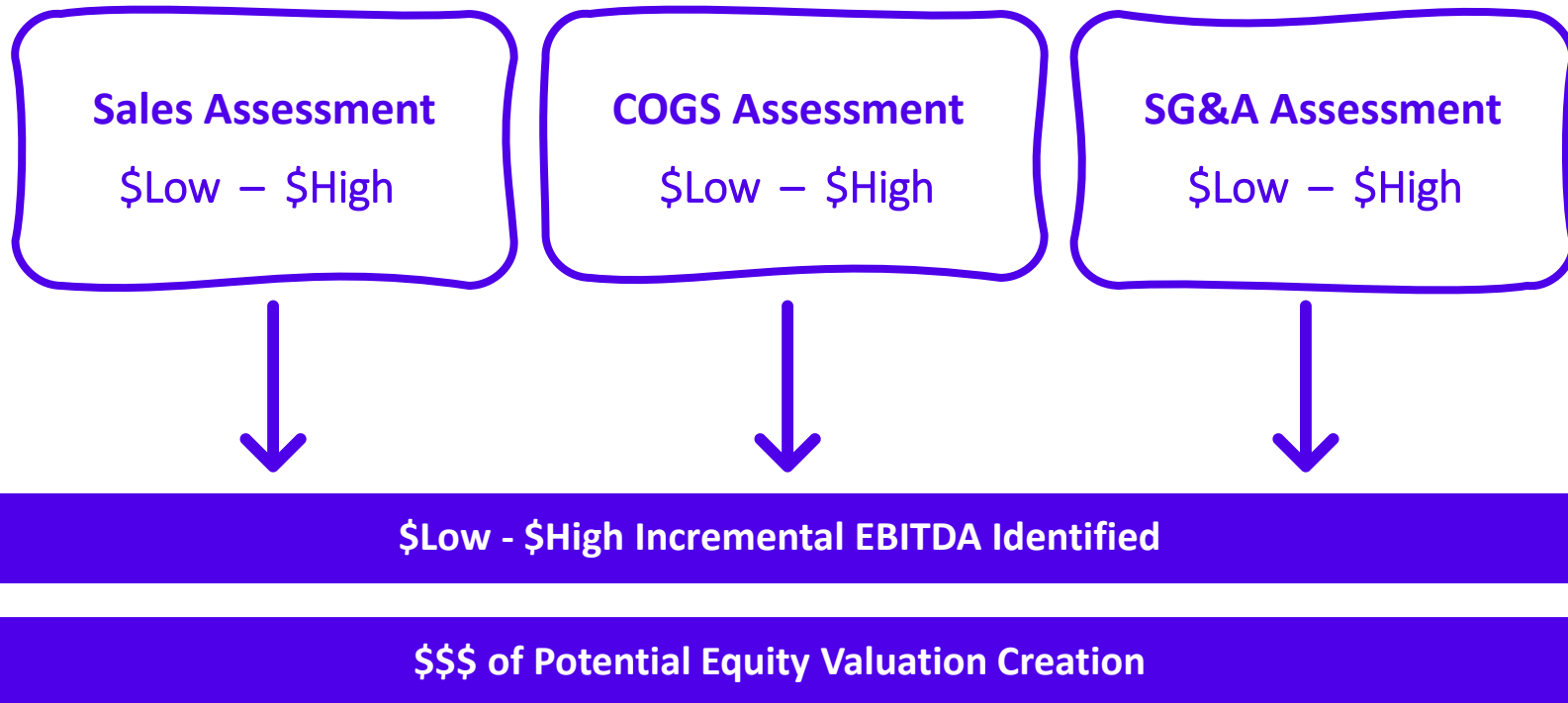
White Boarding: The Big Picture

White Boarding is the assessment of Sales, COGS, and SG&A levers that can be pulled to increase EBITDA



White Boarding: Summary and Value Creation

Company White Boarding Exercise



White Boarding: Example

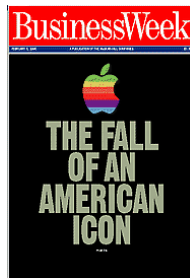


The World's Most Valuable White Boarding Session



'96

- Faced with prospect of bankruptcy
- Product lines exploded in number, but decreased in relevance
- The world's most emotional brand was no longer emotional



'97

- Steve Jobs rejoined the Company and conducted a product review
- He stopped the meeting, drew two lines on the White Board and said, ***"This is all we need."***

<i>Pro</i>		
<i>Consumer</i>		
	<i>Desktop</i>	<i>Portable</i>

- A clearer 'Blueprint' allowed Apple to free up engineers to work on Project Purple >



'23

- Market Cap of Apple today:
\$2.89+ Trillion



Questions?

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