

Company ABC

February 25, 2020

SG&A Diagnostics



Alvarez & Marsal
Insight Center

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Executive Summary

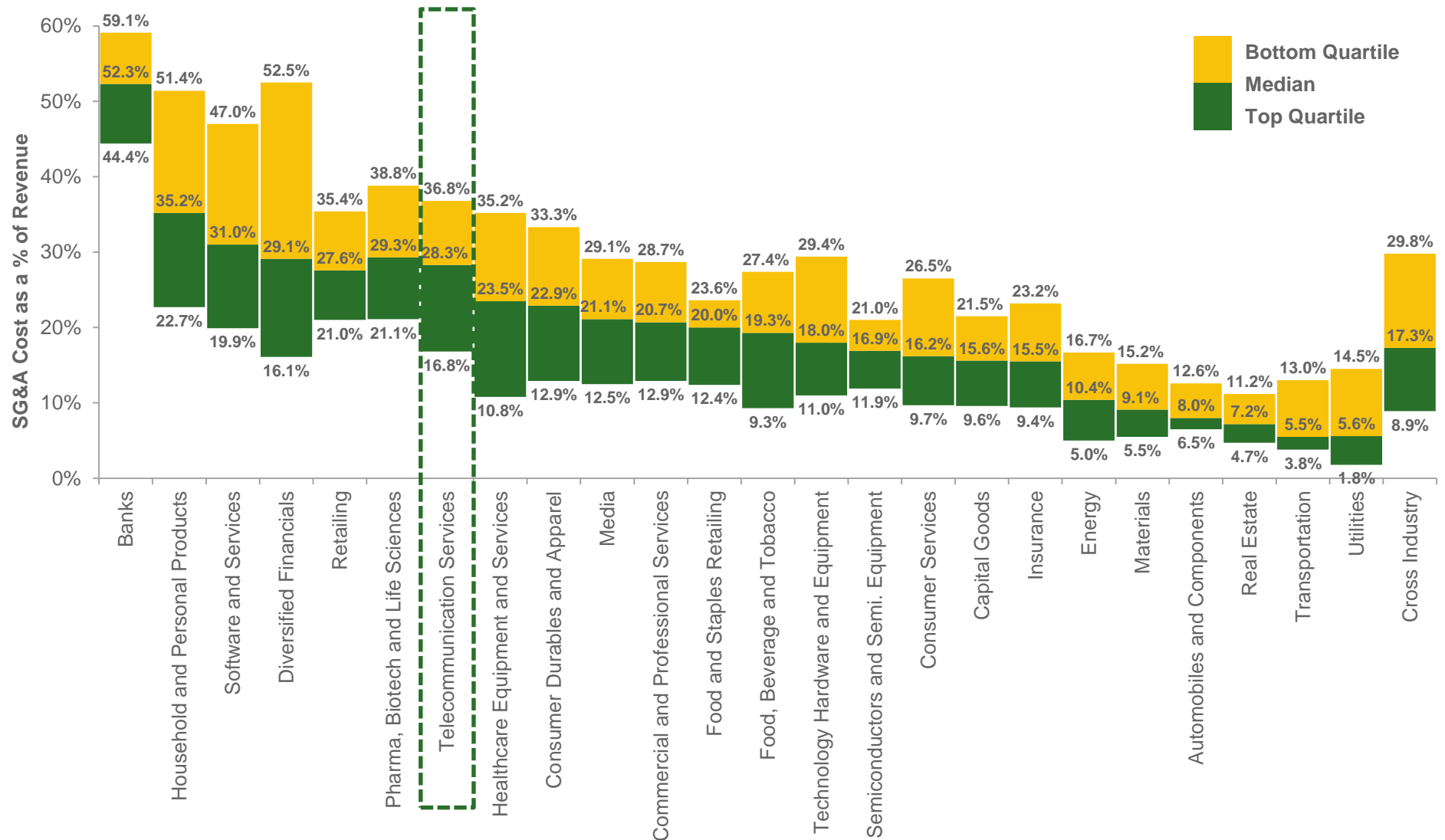
Executive Summary: SG&A Diagnostics

- Company ABC is performing below the Median and has SG&A opportunity when compared to Median and Top Quartile. The SG&A opportunity could range between \$159MM to \$455MM.
- As far as decomposed SG&A expenses are concerned, Company ABC is performing below Median, and they do have significant SG&A cost improvement opportunity when compared with Median to Top Quartile performers, the SG&A opportunity could range between \$60MM to \$169MM.

SG&A Cost as a Percent of Revenue by Industry Group

Optimizing SG&A spend can liberate capital for more strategic leverage within operations or drive savings to the bottom line. As per reported 10-K, Company ABC SG&A cost as a % of revenue is 21.08%.

Source: A&M Insight Center, analysis based on FY2018 10-K Financials, <https://www.sec.gov/>, based on 3000+ Global Companies



Peer Group Demographics

Peer Group Overview

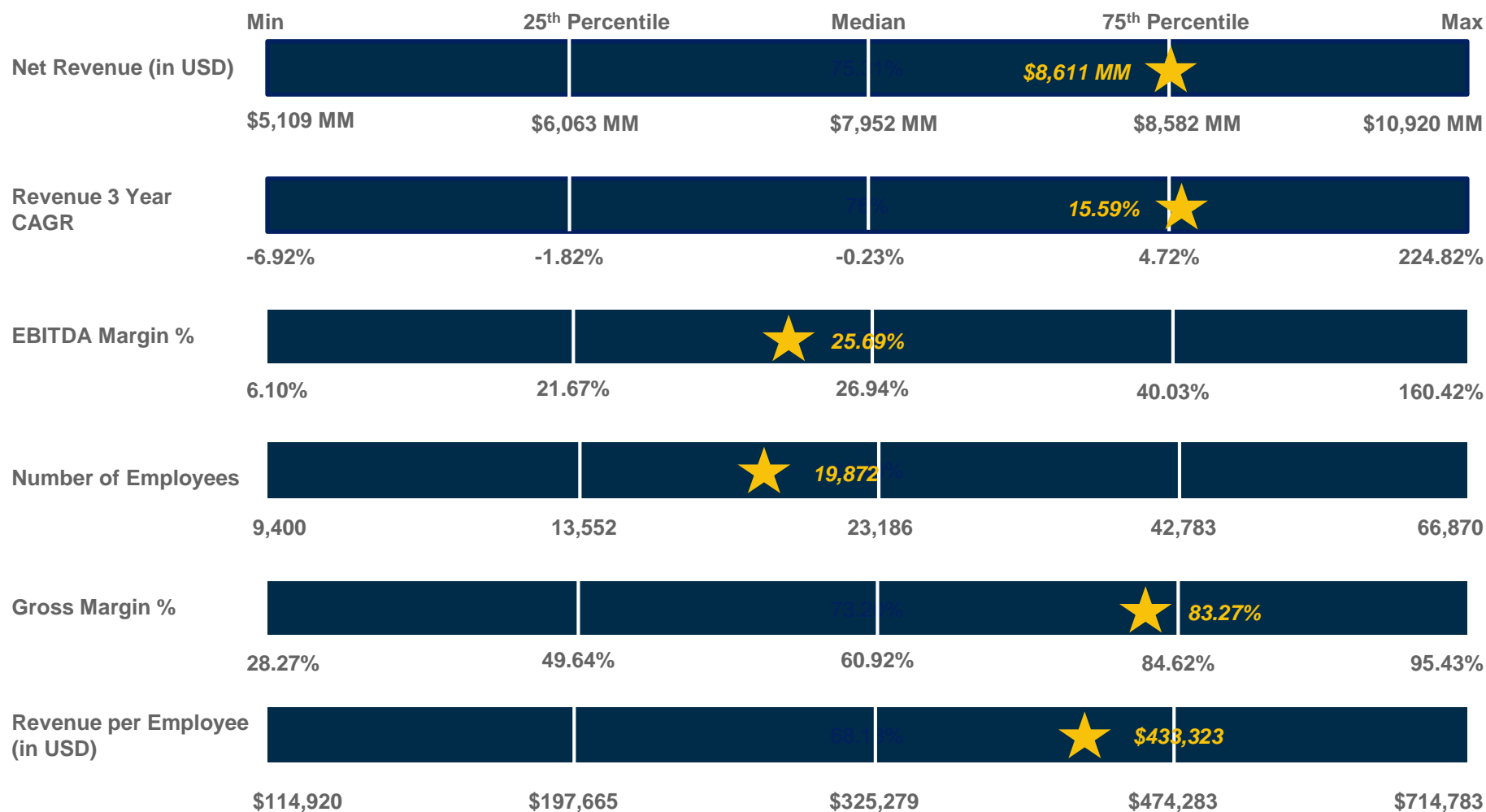
Following peers were included for the benchmarking comparison, this group was selected based on the revenue size and the primary industry code.

Peer Name	SIC Code	SIC Inds
Company 1	4812	Radiotelephone Communications
Company ABC	4813	Telephone Communications (No Radiotelephone)
Company 2	4813	Telephone Communications (No Radiotelephone)
Company 3	4812	Radiotelephone Communications
Company 4	4813	Telephone Communications (No Radiotelephone)
Company 5	4813	Telephone Communications (No Radiotelephone)
Company 6	4813	Telephone Communications (No Radiotelephone)
Company 7	4812	Radiotelephone Communications
Company 8	4812	Radiotelephone Communications
Company 9	4813	Telephone Communications (No Radiotelephone)

Peer Group¹ Demographics

★ Company ABC

The demographics details the range of the selected peer companies.

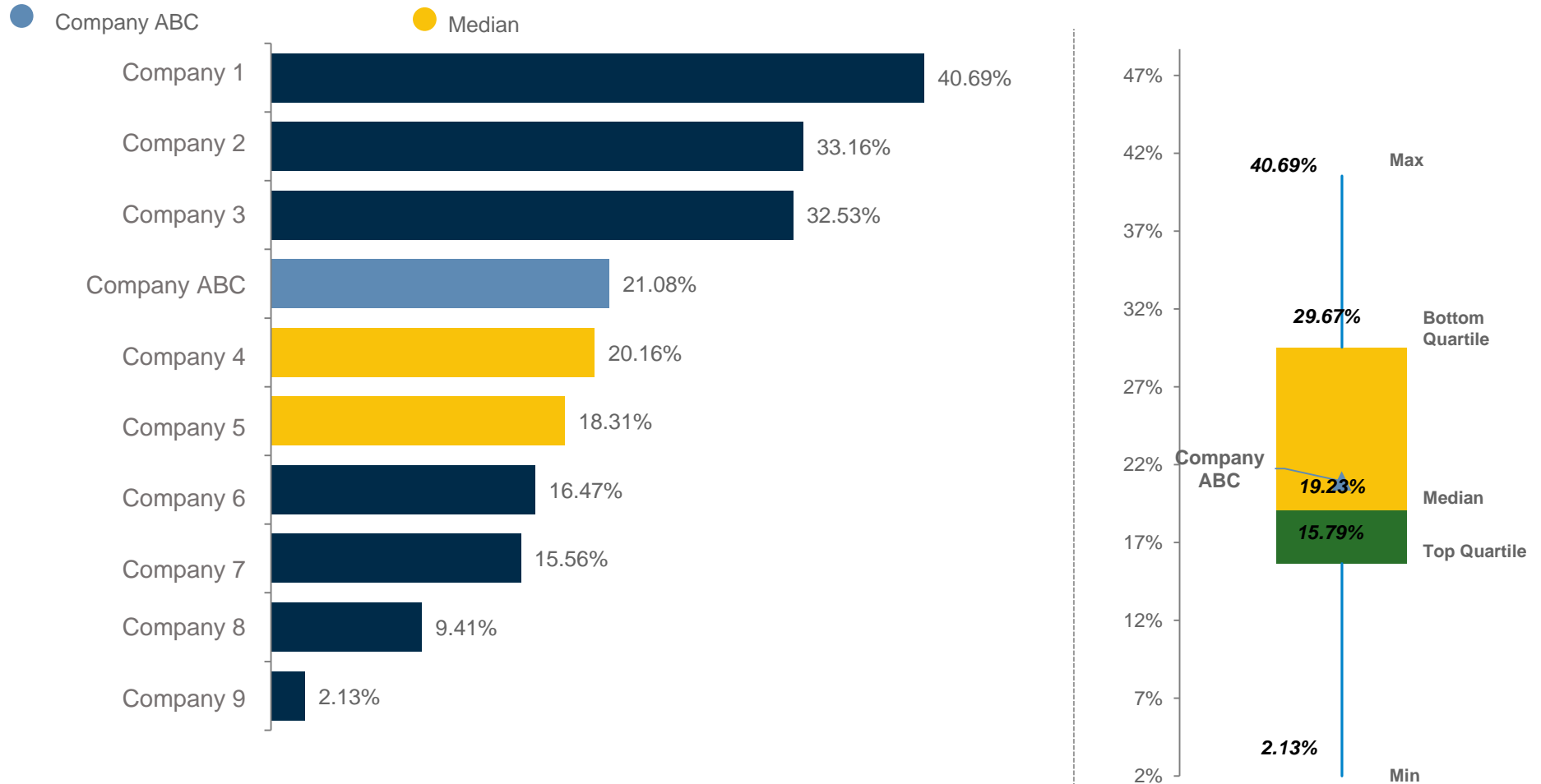


1. Peers listed on pg.7 of this deck, for Peers & Company ABC, FY2018 Financial Data Sourced from 10-K SEC, <https://www.sec.gov/> financials.

SG&A High Level Cost Comparatives: AS IS

SG&A Cost as a Percent of Revenue¹

Company ABC is performing below the Median and has SG&A opportunity when compared to Median and Top Quartile. The SG&A opportunity could range between \$159MM to \$455MM.



High Level SG&A Opportunity Range³: \$159MM to \$455MM

1. SG&A Cost includes - Selling General & Admin Expenses, Total is a line item in the Standard template with the following components: Equipment Expense, Salaries and Other Employee Benefits, Occupancy Expense, Insurance, Expenses, Stock-Based Compensation SG&A Exp., Net Rental Expense, Lease and Rent Expenses, Selling General & Admin Expenses, Selling and Marketing Expenses, General and Administrative Expenses, Other Rental Expense, Contingent Rentals, Sublease Income, Minimum Rental Expenses.
2. Peers listed on pg.7 of this deck, for Peers, FY2018 Financial Data Sourced from 10-K SEC <https://www.sec.gov/> financials,
3. The SG&A high level opportunity is calculated as SG&A cost as a % of revenue gaps between Company ABC and Median to Top Decile Performers times Company ABC's Revenue.

SG&A vs. EBITDA Performance¹

Optimizing SG&A spend can liberate capital for more strategic leverage within operations or drive savings to the bottom line. Topmost right hand quadrant is Top performer space, Qwest Corp is best in class player, the bottom left hand quadrant is below Median performers, Company ABC has below Median overall performance. They have significant opportunity for improvement as compared to Median and best in class performers.

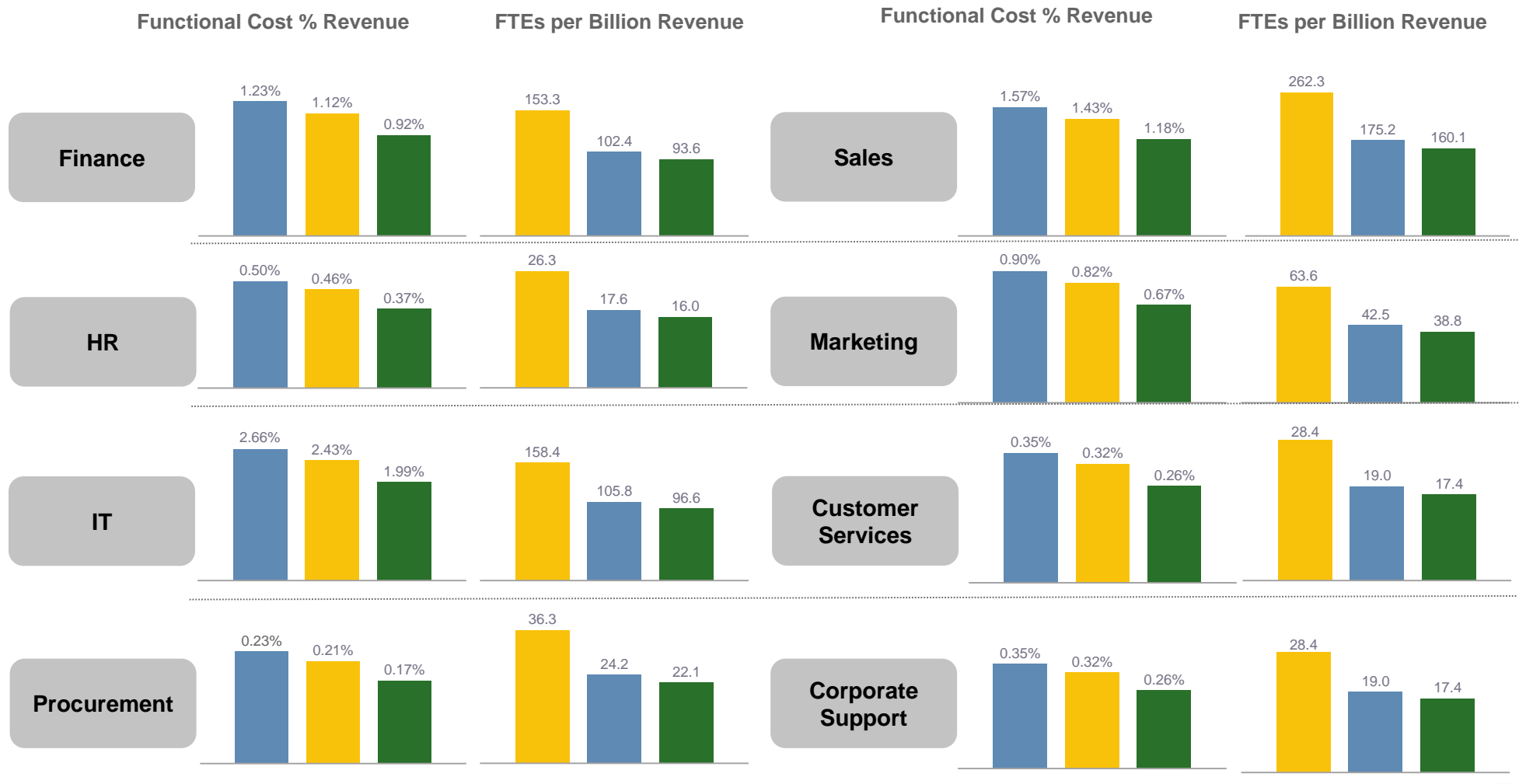


1. SG&A Score: Is the percentile rankings computed for SG&A Margin for each company within the peer group, lower the SG&A margin, higher the SG&A score.
EBITDA Score: Is the percentile rankings computed for EBITDA Margin for each company within the peer group, higher the EBITDA margin, higher the EBITDA score.

Decomposed SG&A Functional Analysis

SG&A Decomposed Functional Costs and FTE Analysis¹

As far as decomposed SG&A expenses are concerned, Company ABC is performing below Median, and they do have significant SG&A cost improvement opportunity when compared with Median to Top Quartile performers, the SG&A opportunity could range between \$60MM to \$169MM.

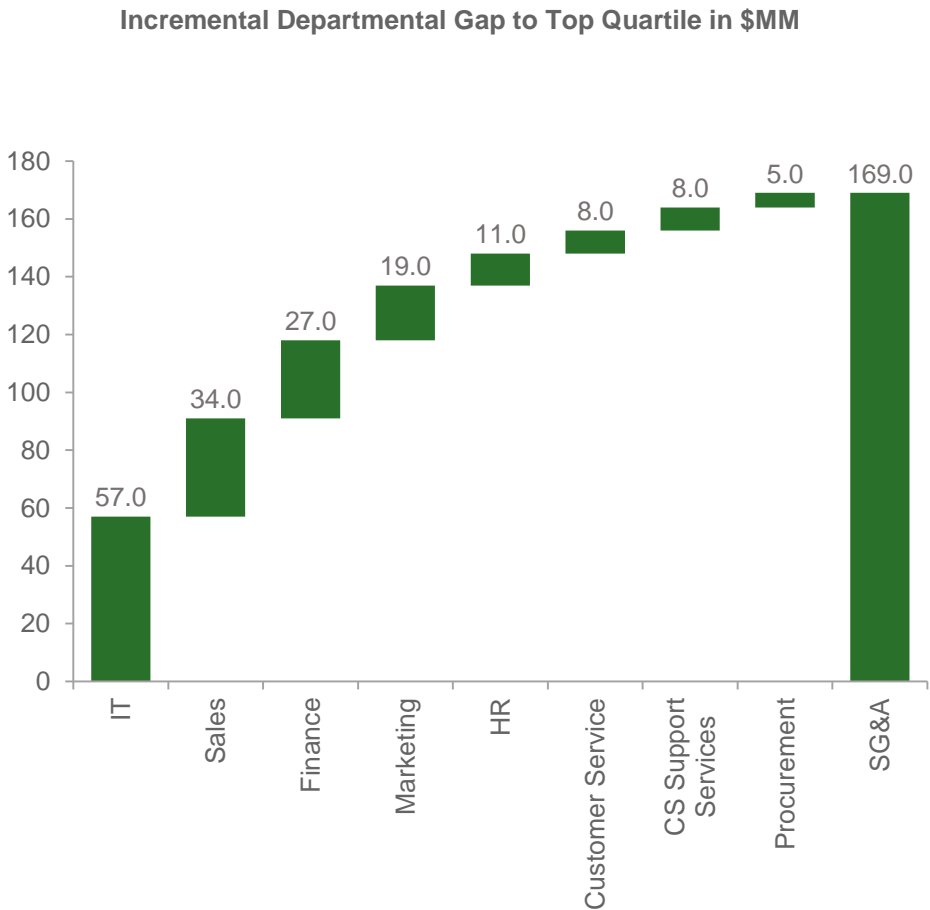
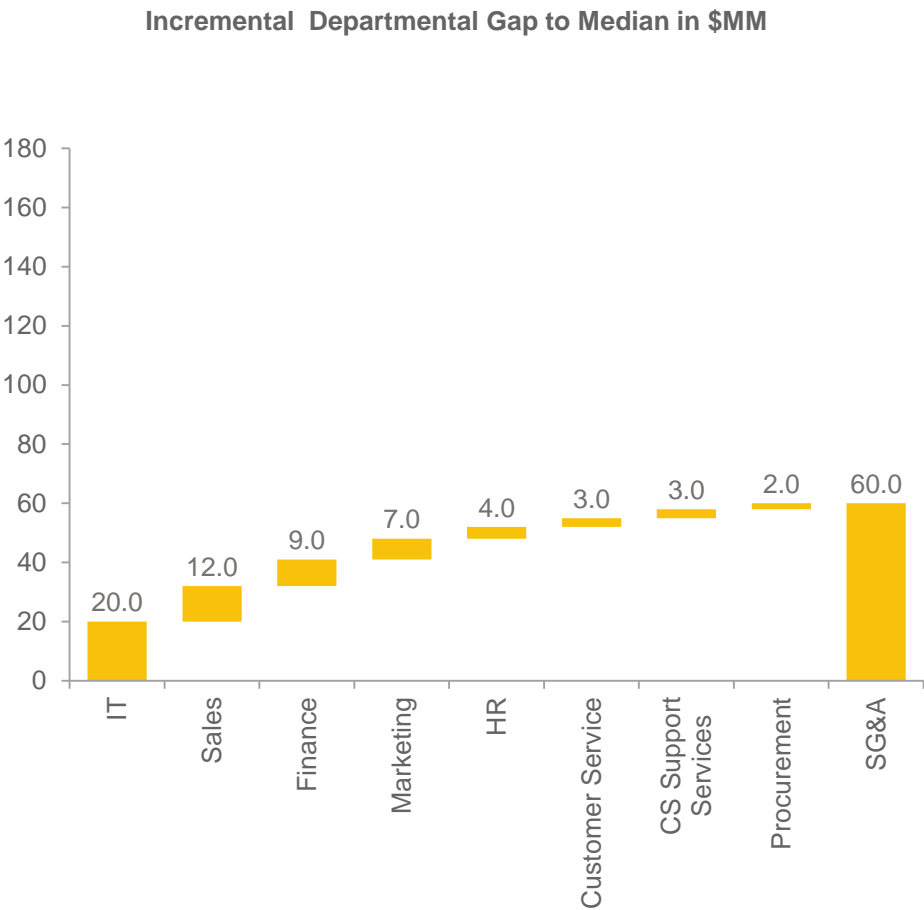


1. Based on the Top down cost allocation SG&A model detailed on Pg.18 of this deck / Functional costs includes departmental Labor, Outsourcing, Technology and Other costs.

2. Functional Data is estimated for Company ABC's using A&M's Top down cost allocation model, listed on Pg. 18 of this deck, and the functional opportunities are calculated based on the functional cost gaps of respective functions between Company ABC and Median to Top Decile Performers times Company ABC's Revenue.

Company ABC Estimated Opportunity Waterfall¹

The SG&A cost reduction opportunity waterfall indicates the overall opportunity ranges from \$60MM to \$169MM, with 80% of the opportunity coming from IT, Sales, Finance.



1. Based on the Top down cost allocation SG&A model detailed on Pg.18 of this deck / Functional costs includes departmental Labor, Outsourcing, Technology and Other costs.
2. Functional Data is estimated for Company ABC's using A&M's Top down cost allocation model, listed on Pg. 18 of this deck, and the functional opportunities are calculated based on the functional cost gaps of respective functions between Company ABC and Median to Top Decile Performers times Company ABC's Revenue.

Appendix

SG&A Functional Taxonomy

In order to create an apples-to-apples comparison across peers, the spend from peers has been aligned to a standard set of functions and processes within each SG&A category.

❑ Finance

- Transactional Processing
- General Accounting & Financial Reporting
- Controls
- Tax & Treasury
- Performance Management
- Finance Function Management

❑ Human Resources

- Transactional Processing
- Rewards Administration
- Talent Management
- Strategy and Program Design

❑ Information Technology

- Application Development & Management
- IT Control & Risk Management
- Infrastructure Technology Management
- IT Planning and Strategy

❑ Marketing

- Demand Stimulation / Lead Generation
- Marketing Communications
- Brand and Product Management
- Marketing strategy and planning
- Marketing - Function Management

❑ Procurement

- Sourcing Execution
- Purchase Order Processing
- Scheduling
- Supply Data Management
- Receipt Processing
- Compliance Management
- Supplier Management & Development
- Sourcing Strategy & Analysis
- Product Development Support
- Functional Management & Administration

❑ Sales/Customer Service

- Customer creation
- Customer retention
- Sales - customer service
- Sales order entry
- Order and Contract Management
- Customer Service Operations and Management

❑ Corporate Support Services

- Aviation
- Communications Services
- Environmental Health and Safety
- Executive Office
- Legal
- Mergers and Acquisitions
- Non-Merchandising Procurement
- Strategic Planning
- Travel Management

SG&A Assumptions and Methodology

- All monetary units are in \$(USD).
- The peer data used in this analysis represents 10-K SEC filings, <https://www.sec.gov/> for FY2018.
- For Company ABC. FY2018 data was used.
- **Company ABC** industry peer group has been comprised of companies represented in the following SIC codes:
 - **4812 Radiotelephone Communications**
 - **4813 Telephone Communications (No Radiotelephone)**

Company 1	Company ABC	Company 4	Company 6	Company 8
Company 2	Company 3	Company 5	Company 7	Company 9

SG&A Assumptions and Methodology

- “Top Quartile” & “Best in Class” cost comparisons represent organizations operating at or below the Top Quartile (p25) and Best in Class is “Top Decile” (p10) breakpoints of the data set respectively and do not specifically infer top performance from an effectiveness perspective.
- Selling General & Administrative Expenses SG&A are the costs that occur during the daily operations of a company and not directly related to the manufacturing of the product. These are the expenses related to the selling, promoting and delivering of a product as well as managing the company. SG&A is not assigned to the cost of goods sold as it deals with all the other factors that come with creating a product.
- General and administrative (G&A) expenses are referred to as the overhead of the company. They are the costs a company must incur to open the doors each day. G&A costs are more fixed than selling costs because they include rent/mortgage on buildings, utilities and insurance. G&A costs also include salaries of all non sales personnel.
- **EBITDA Score:** Is the percentile rankings computed for EBITDA Margin for each company within the peer group, higher the EBITDA margin, higher the EBITDA score.
- **SG&A Score:** Is the percentile rankings computed for SG&A Margin for each company within the peer group, lower the SG&A margin, higher the SG&A score.

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