

Empirical Determination of Cost vs Cycle Time

- The Institute of Business Entropy has formed a joint venture with MLG Defense Holdings to purchase manufacturing companies as investments
- The companies will implement Lean Six Sigma and consistently define and report WIP and Cost of Goods Sold monthly to test the Equation of Entropic Cost(www.entropy2718.com)
- Similar data from public companies is of limited use since WIP often includes Raw material and vice versa, and reporting only takes place once per year and we must collect intra-year data to test the Equation of Entropic Cost



MLG
Michael L George
Defense Holdings

Michael L. George Defense Holdings LLC

Private Equity for
Middle Market Companies in
The Defense Industry



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Agenda



- Firm Overview
- Investment Criteria
- Market Opportunity
- Why MLG is a Unique Partner
- Case Studies
- Principals

Firm Overview



- Dallas, Texas-based private equity firm
- Founded by principals with extensive operating and private equity experience and a track record of creating meaningful value through improvements in operations, corporate strategy and marketing
- Invests in middle-market manufacturing and service companies in the Defense Industry, in which MLG's principals' significant expertise and relationships can be leveraged
- MLG's principals founded and led the George Group Consulting L.P.
 - Leading consulting firm focused on implementation of Lean Six Sigma practices
 - Significant work for defense contractors and DoD
 - Grew to \$120 million in revenue by 2007, when sold to Accenture
- Background and perspective of MLG's principals differentiate the firm from typical private equity investors
 - Active partnership with portfolio company management
 - Ability to add significant value through leveraging industry expertise and network and implementation of Lean Six Sigma practices
- Principals investing a significant amount of their own capital
- Several private equity firms and hedge funds have found the defense opportunity attractive and have expressed an interest in investing up to \$1 billion with MLG

Investment Criteria



Company Size:	Revenues between \$10 - \$400 million
Industry:	Manufacturing, technology/solutions and security firms in the Defense Industry
Stage:	Established operations – minimum of \$1.0 million of EBITDA
Growth Potential:	Significant opportunities to grow in the Defense market with significant level of recurring revenue and to achieve meaningful margin improvement t
Past Performance:	Superior reputation/past performance from customers' perspective
Operations:	Potential for MLG principals to add meaningful value through improved operational efficiency, strategy and product and market development.
Geography:	Headquarters in the United States
Equity Investment:	Control position, but will invite co-investment by strategic partners and management; Total required equity between \$5 - \$50 million

Market Opportunity



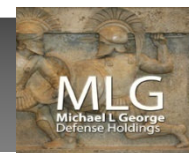
"The end state I have in mind is not achievable just through the normal forces of competition. Competition is ordinarily pursued by cutting costs at the margin—all very good, but not adequate. While beneficial, competition to save a few percent on a product does not generate the capability, quality, or savings we desire. What is really needed is a competition of ideas. When great minds focus on meeting requirements differently, truly innovative ideas can emerge."

Don Winter, Secretary of the Navy

- More than 35% of defense contracts are seriously late and over budget.
- MLG has the unique capability to both access the market and deliver on time and on budget, using proven methods many of which they created.
- We will be the supplier of choice that performs best and applies the same methodologies espoused by the DoD*.

*See DEPSECDEF Gordon England's comments on page 8 of *Transforming Government Using Lean Six Sigma*.

Why MLG is Unique



- ❖ MLG was founded by principals with significant operating **and** private equity experience
- ❖ Track record of creating significant value at George Group and in prior investments
- ❖ Significant expertise and network in the Defense Industry

Experience

MLG Commitment

- ❖ Principals committing significant capital to each investment
- ❖ Active engagement with portfolio to create significant value
- ❖ High ethical standards/stellar reputation among Defense Industry players

- ❖ MLG will be an active partner with management
- ❖ Implementation of Lean Six Sigma practices to reduce costs and working capital and enhance customer service through shortened lead times
- ❖ Leverage broad network of industry relationships and access to industry thought leaders to generate significant growth

Value Add

Partner with Management

- ❖ MLG principals have been operators before
- ❖ Bring different perspective to portfolio companies
- ❖ Assistance with Marketing and Business development strategy
- ❖ Align management interests with MLG/investors through direct investment and equity incentive plans

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Impact of Lean Six Sigma



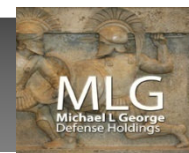
ACHIEVING AND SUSTAINING
SUPERIOR CLIENT
SHAREHOLDER RETURNS...



...THROUGH FAST INNOVATION,
CONQUERING COMPLEXITY,
AND LEAN SIX SIGMA OPERATIONS



MLG Value-Add: Case Study #1



Company: Preferred Technical Group
Description: Largest North American designer and manufacturer of coupled hose products to the automotive OEM market; formerly division of United Technologies
Acquired: September 1992 in partnership with Bain Capital
Equity Invested: \$7.8 million

Investment Rationale

- Leading supplier in consolidating industry segment
- Platform for further acquisition to strengthen product line and diversify customer base
- Leverage design/engineering expertise to expand product line and gain market share
- Effect turnaround through incentivizing management in a neglected division of a large conglomerate
- Reduce manufacturing and overhead costs through cycle-time reduction and facility consolidation
- Improved service levels and shorten delivery lead times to win new contracts on high volume platforms

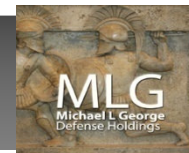
MLG Value-Add

- Reduced order lead-time by 85% (to 2 days) through process improvements and facility redesign, driving significant growth in market share
- Reduced manufacturing and overhead costs through cycle-time reduction and facility consolidation
- Increased inventory turns by a factor of 7 through reduced production batch sizes
- Installed demand-based manufacturing system
- Improved quality and service level to regain Ford's Q1 status
- Increased manufacturing throughput by 35% through redesign of manufacturing layout into cells

Results

- Achieved 115% growth in revenue, 300% increase in EBITDA during ownership**
- Increase EBITDA Margin from 8.3% to 15.3%**
- Sold to Echlin Inc. in December 1994**
- Realized equity value of \$91.6 million, 11.7x original investment**
- Generated IRR of 197.1%**

MLG Value-Add: Case Study #2



Company: Brown-Bridge Industries
Description: Manufacturer of adhesive-coated materials used in marking, labeling and decorating applications; formerly division of Kimberly-Clark
Acquired: September 1994 in partnership with Lynch Corporation
Equity Invested: \$6.1 million

Investment Rationale

- Improve quality and service levels to gain market share in a fragmented industry
- Double EBITDA through implementing cycle time reduction strategy, resulting in (i) increased labor productivity, (ii) reduced facility requirements, and (iii) reduced scrap
- Reduce inventory through enhanced manufacturing scheduling and process improvements
- Redesign the manufacturing process to reduce cycle time and improve customer satisfaction

MLG Value-Add

- Reduced working capital by 40% by (i) reducing late invoice payments, (ii) implementing demand-based manufacturing to reduce WIP, and (iii) negotiating improved payable terms
- Reduced offsite warehouse requirements by 74% through inventory reduction
- Increased direct labor productivity through 80% reduction in transfers between warehouses and manufacturing facilities
- Reduced order lead-time by 19%

Results

- **Achieved 27% growth in revenue, 75% increase in EBITDA during ownership**
 - **Increased EBITDA Margin by 37%**
 - **Exited through sale of interest to Spinnaker Industries in August 1997**
- **Realized equity value of \$130.1 million, 21.3x original investment**
- **Generated IRR of 189.4%**

MLG Team



Mike George

- Former Vice President of Marketing & Business Development for George Group's Federal Services division
- Led George Group's entry into the Federal space
- Responsible for developing more than \$160 million worth of prime Government contracts for George Group from 2004 through 2007. These contracts contributed significantly to the George Group's enterprise value, resulting in its growth of 50% per year between 2004 and 2007.
- Has an in-depth understanding of the planning and implementation of Lean Six Sigma programs and process improvement.
- Has a deep understanding of developing Marketing and Business Development strategies in the Department of Defense.
- Holds a BA in Physics and a Masters in Business Administration from Southern Methodist University.

MLG Team



Mike George, Sr.

- Founder and former Chairman & CEO of the George Group
- Personally trained over 50% of all Army Generals, Navy Admirals, Marine Generals, and related SES including SECNAV, SECARMY, and the current Chairman of the Joint Chiefs of Staff
- Thought leader and executive advisor helping Global 2000 companies and U.S. Government agencies truly connect strategy to execution and process improvement
- His latest book, *Transforming Government Using Lean Six Sigma* (Dec 2007) has been sent to 10,000 thought leaders in government.
- His book, *Fast Innovation* (July 2005), presents new ways to increase the success rate of innovations while dramatically reducing time-to-market.
- Holds a BS in Physics from the University of California and an MS in Physics from the University of Illinois.

Mike George, Sr addressed the DoD Maintenance Symposium, Oct. 14, 2007, following the LTG Christianson's Kickoff - Attended by 1600 persons. Maintenance cost dwarfs all other procurement costs of the DoD.



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