

# Distinctive Competence

Building the best in the world

SUSTAINABLE COMPETITIVE ADVANTAGE

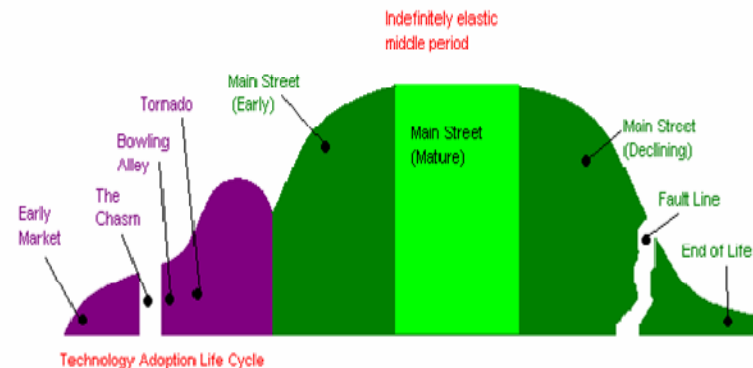
**Broad:**  
Wide Range of products, across large regions

**Narrow:**  
Particular segment only

|                 |                       |
|-----------------|-----------------------|
| Cost Leadership | Differentiation       |
| Cost Focus      | Differentiation Focus |

# Strategic Transformations

## Transforming Strategy for Shareholder Value



Fact-Finding.org

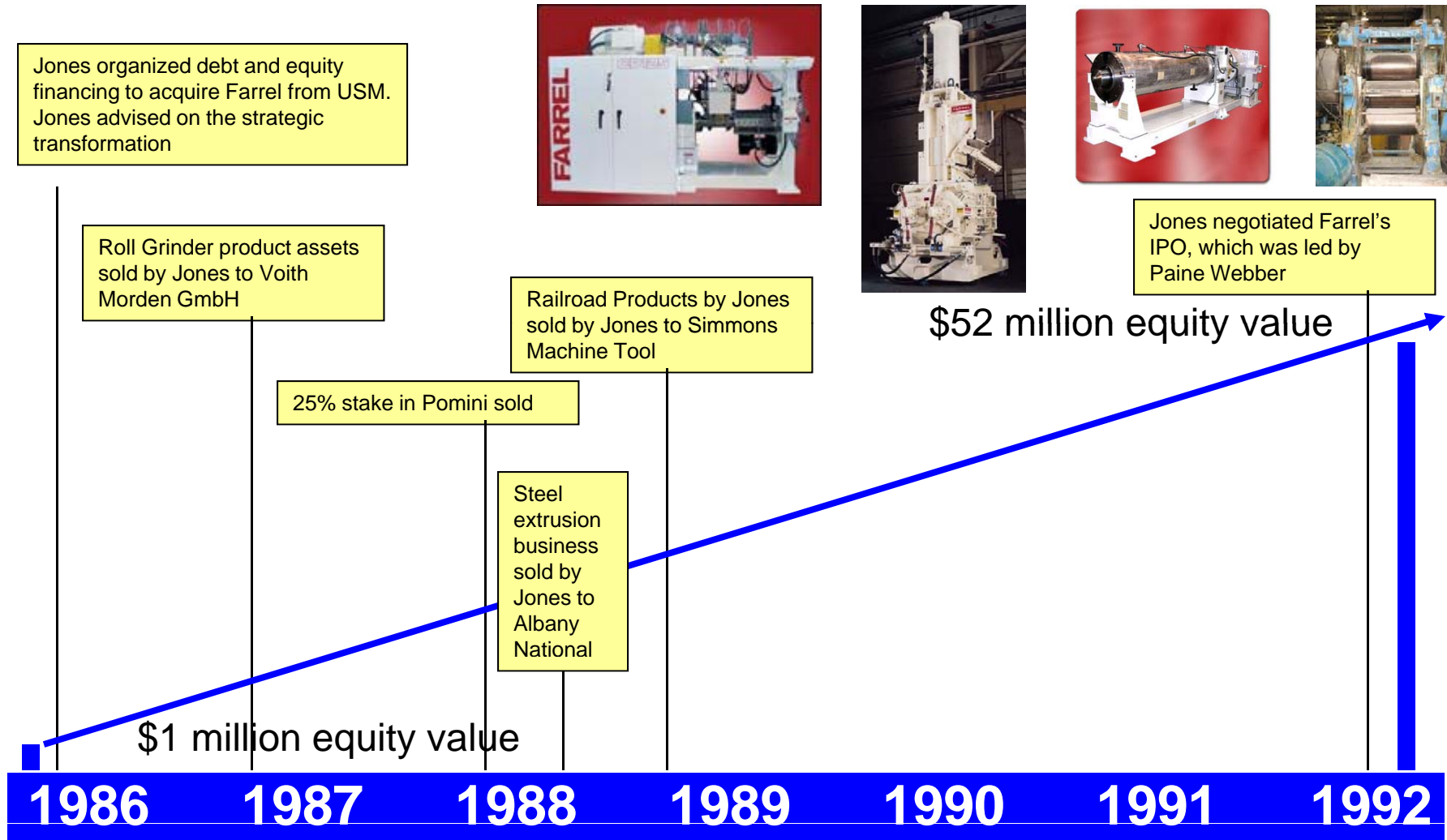
Finding Truth in Facts, Defeating Fable by Searching Documents

**\$1 million investment returns \$52 million, an IRR of 92.1%**

- **Strategic Transformation:** Move from *broad* foundry product strategy to *narrow*, single focus on polymer mixing machinery strategy
- Event Timeline:
  - **1986:** Mr. Jones and two other investors purchased Farrel Corporation, a producer of industrial machinery, from Emhart Corporation with \$1.0 million of equity. Jones developed a strategic operational turnaround plan, which enabled debt fundraising.
    - At the time of acquisition, Farrel was losing over \$10 million on a \$50 million revenue base
  - **1986 – 1992: Strategic Transformation:** In the transition to the *narrow* polymer strategic focus, Jones, as a founding investor, Board member, and exclusive financial and strategy advisor, identified parties, organized sell process and negotiated the divestiture of non-core assets.
    - Roll Grinder Products division sold to Voith Morden GmbH in 1987
    - Railroad products sold to Simmons Machine Tool in 1989
    - 25% stake in Pomini in Italy divested in 1988
    - Steel extrusion division sold to Albany National
  - By 1991, revenue doubled to \$105 million with \$5.4 million operating income
  - **1992:** Charles S. Jones led Farrel's IPO on NASDAQ, underwritten by Paine Webber and First Albany for a pre-money valuation of \$52.1 million, giving the original investors a 52.1x return in less than six years, with an IRR of 92.1%.
  - **Post 1992: Strategic Transformation:** Charles S. Jones led the acquisition of Farrel's major competitors, including Rockstedt OHG in Germany, Francis Shaw Rubber Machinery Ltd. and PRC Fabrications Ltd in the United Kingdom and Skinner Engine in Erie, Pennsylvania.
    - **Strategic Transformation:** Jones strategically managed to have Black and Decker assume \$30 million in environmental liabilities..



# Farrel Timeline



Fact-Finding.org

Finding Truth in Facts, Defeating Fable by Searching Documents

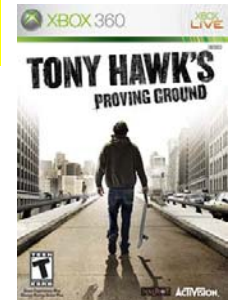
Revenues increase 13.8 fold, from £11.0 mln to £163.3 mln;  
After Tax profits from £0.8 mln to £14.1 mln (1986 – 1990)

- **Strategic transformation:** Jones executed the rollup of 17 businesses in North America in 18 months, transforming them to a unified service provider for major enterprises. Shandwick became the world's largest public relations firm in 1989, when Jones was promoted to global Chief Operating Officer.
  - Shandwick completed 50 acquisitions around the world between 1986 and 1990



## Generated 20x returns for original VC investors (IRR of 30%+)

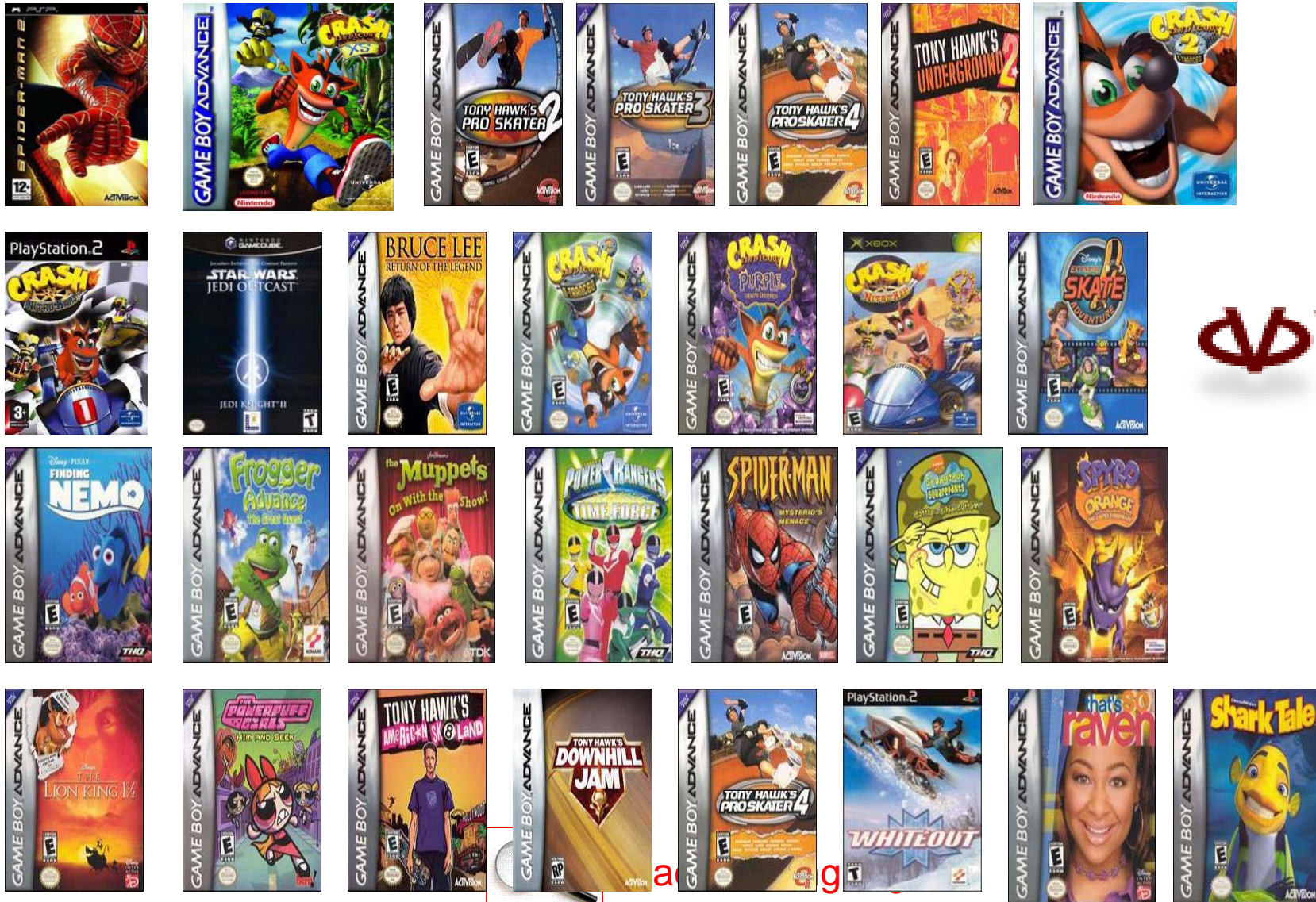
- Producer of video games in Troy, NY, Five titles sold over 1 million copies.
  - Spider Man 2 was the #1 third-party game for Nintendo DS
  - Other titles included Doom 3 for Xbox, Shrek 2, Shrek 2: Beg for Mercy, Sharks' Tale, and Tony Hawk's Underground 2.
- Charles Jones was a member of the Board of Directors and advisor to management from 1997 – 2005.
  - Led strategic negotiations with the largest customer, which accounted for almost 90% of total revenue, when the customer was threatening to default in its relationship.
- **Strategic transformation:** Vicarious Visions was the only competitor to take a *broad* platform strategy in producing each of its games on multiple platforms. Vicarious Visions deployed first mover, *lowest cost* provided strategy in setting up development facilities in the former USSR.
- In its first 10 years, Vicarious Visions was **profitable** during every year except one.
- **Strategic transformation:** Vicarious Visions, by acquiring Alchemy middleware and tools for development, initiated a further *low cost* strategy by vertically integrating its skill set, which permitted faster production on several different platforms without having to start “from scratch” for each platform, and permitted faster production of video games with better graphic capabilities.
- **Strategic Solution:** Having developed this competitive position in a fast growing enterprise, sold to Activision in January 2005. Company generated a **20x return** for the original venture capital investors (equivalent to an IRR in excess of 30%).



Fact-Finding.org



# Vicarious Visions Games 1997 - 2005



# Strategic Transformations

- **Manufacturing**

- **Issue:** Farrel Corporation has a broad foundry product strategy, producing a diverse mix of industrial products, with heavy operating losses and huge environmental issues.
- **Strategic Solution:** Farrel develops a narrow strategy focusing singularly on polymer mixing machinery industry, which transforms the company in doubling revenues and building significant profitability. In the process, Farrel divests several business lines.
- **Result:** IPO of company, 52x returns for original investors.

- **Public Relations**

- **Issue:** Shandwick was a small PR firm based in the competitive London, UK market
- **Strategic Solution:** Pursue a differentiated, broad global roll-up strategy.
- **Result:** Shandwick builds largest PR firm in the world through global industry roll-up.

- **Entertainment**

- **Issue:** Vicarious Visions was a late start video game developer, with its products originally distributed by one mid market publisher.
- **Strategic Solution:** Vicarious Visions deployed first mover, lowest cost provided strategy in setting up development facilities in the former USSR. The business was transformed to having products distributed by several major videogame publishers (e.g., Activision, Electronic Arts); by acquiring Alchemy middleware and tools for development, initiated a further low cost strategy by vertically integrating its skill set, which permitted faster production on several different platforms without having to start “from scratch” for each platform, and permitted faster production of video games with better graphic capabilities.
- **Result:** Vicarious acquired by Activision, providing original VC investors with a 20x return.

- **Software**

- **Issue:** Geac Computer Corp. had a broad mix of legacy, unrelated software applications; without strategic competitive focus, and had losses of \$169.1 million in FY2001.
- **Strategic Solution:** developed a broad “umbrella strategy” to wrap products through acquisitions of performance management applications, while transforming the business to become the most profitable software company, by EBITDA margin, in the world.
- **Result:** In five years, the market capitalization moved from US\$69 million to \$1 billion, providing an almost 9 times return to shareholders and an IRR of 60.3%.



Fact-Finding.org

Finding Truth in Facts, Defeating Fable by Searching Documents