



Industrial footprint optimization: The valuation perspective (article 5/5)

THE VALUE IMPERATIVE IN FOOTPRINT PROJECTS: BRINGING CLARITY TO DECISION-MAKING



This is the fifth part of our series “A blueprint for footprint” on the key facets of industrial footprint optimization

The valuation perspective is imperative in industrial footprint optimization projects, providing management clarity about the price tag and the financial risks and benefits associated with each strategic initiative under consideration.

In this instalment, which builds on our previous articles on industrial, compliance and tax considerations of footprint optimization, we highlight key valuation risks, recommend ways to mitigate those risks, present a case study and offer actionable insights for companies undertaking footprint projects.

Industrial footprint projects involve consolidating operations, relocating facilities, and divesting or restructuring assets.

A photograph of a man in a suit pointing at a large screen displaying various business charts and graphs, including a line graph and pie charts.

VALUE RISKS IN FOOTPRINT PROJECTS



Industrial footprint projects involve consolidating operations, relocating facilities, and divesting or restructuring assets. All of these initiatives may significantly impact EBITDA, capital expenditures, working capital requirements, and ultimately, the valuation of the company by a changed cash flow and associated cost of capital profile.

Moreover, how the investor community views such reorganizations significantly influences the market value of companies. If the market views the footprint project as reactive cost-cutting instead of a well-positioned rebalancing of operations, investors may discount long-term growth with negative consequences for the company value. As such, the equity story becomes an integral value driver in footprint projects.

The value sensitivity of footprint projects is arguably high. While footprint projects offer significant value creation potential, the mitigation of value risks becomes a top management priority.

MITIGATING VALUE RISK IN FOOTPRINT PROJECTS

Management must have a clear and precise view on the value impact of strategic scenarios in footprint optimization projects so they can make fact-based decisions and communicate them with clarity and consistency. To achieve this, the following are critical considerations:

1. Transparency on financial and operational performance

Transparency on financial and operational performance is a key success factor in footprint projects. This is established by setting up an integrated financial model which serves as the backbone for decision-making.

The integrated financial model combines historical and projected financials on a transparent and consistent basis. It integrates the operational analysis of the assets not only at the product P&L level but also from an asset profitability perspective.

This involves a review of the asset base containing detailed analysis of production units in terms of production efficiency, financial contribution and the position within the value chain. The asset base is linked to a strategic review of key product groups considering market, competition and positioning to establish a view on the business model viability.

The integrated financial model is used as the single source of truth throughout the footprint project. This accelerates deal readiness and credibility throughout the project by providing a robust foundation for FDD, vendor CDD, and the equity story.

Only if companies own the transparency on financial and operational performance will they be able to they retain control over their narrative and valuation drivers.

2. Financial comparability

The starting point for decision-making is the “Going Concern” view, which reflects the do-nothing scenario for the asset. This unconstrained view serves as the baseline for operational improvement levers as well as strategic scenario development. Next, the value impact of strategic scenarios is compared against this Going Concern view.

Value-oriented decision-making is only possible if the Going Concern and the strategic scenarios are financially comparable on a consistent basis. Comparability can be achieved using a consistent framework of valuation metrics, supported by selected operational metrics.


■ Operational metrics:

The EBITDA and EBITDA margin are a widely accepted proxy for the cash-generating capability of a business and often used for setting capital market expectations on margin targets. While the EBITDA can be regarded as the “benefit,” the required capital expenditures are often seen as the associated “cost” element of reorganization efforts. Further company and industry specific operational metrics may be added, if feasible.

■ Valuation metrics:

The integrated financial model allows businesses to assign a Discounted Cash Flow (DCF) value to each scenario. Since DCF is based on cashflows, it fully captures the timely distribution of improvement levers on EBITDA as well as associated capex and working capital requirements. The Enterprise Value (EV) of each scenario further accounts for the time value of money in comparing Net Present Values. The EV derived by DCF is used since improvement levers often require upfront investments that translate into higher margins with a time lag.

Along with the DCF analysis is the multiple-based view, which is derived by relating the EV from the DCF analysis to the forward-looking EBITDA of the respective scenario. This view emphasizes short-term profitability uplift and comparability with the trading pricing level of competitors. The magnitude and timing of EBITDA enhancement is a key determinant of the implied multiple.



The integrated financial model is used as the single source of truth throughout the footprint project.



3. Equity story

When assessing the value of the Going Concern against strategic scenarios, management should consider four mutually reinforcing lenses on value so that the equity story is communicated clearly and consistently, enabling fact-based and value-oriented decision-making. Each lens provides a distinct understanding of value; taken together, they form a coherent value proposition. The four lenses are:

■ Market perspective

This lens assesses whether the company is aligned with markets and segments that support higher growth and stronger margins. It examines the clarity of the value proposition, product differentiation and the optimal use of assets to secure long-term success.

■ Operational Performance

Operational efficiency is a direct driver of profitability and competitiveness. Streamlined processes and disciplined cost management reduce operational risks while improving productivity.

■ Portfolio and Asset Management

The portfolio view assesses strategic value and reveals structural profitability challenges. By optimising the asset base—protecting critical products, reducing exposure to underperforming assets and managing asset intensity—the company strengthens its margin profile and frees up capital for higher-return uses.

■ Shareholder Value

A strong market narrative builds trust and attracts investment. Effective management of the asset footprint and portfolio can create opportunities to outperform market expectations on margins, cash generation and capital allocation. Investors expect clear guidance on strategy, earnings, resilience and cash deployment so they can form an outside-in valuation using cash-flow models, earnings estimates and multiples. Corporate communication should therefore steer investors toward the desired valuation by consistently emphasising shareholder-value principles.

Ultimately, capital-market communication is a core value driver in footprint projects.

Perspectives on value



ILLUSTRATIVE EXAMPLE

To make the valuation aspect in footprint projects more tangible for decision makers, let us look at how the process worked in this anonymized real-world example.

In the Going Concern scenario, the management of the company faced constant pressure from capital markets: a fragmented production network and an increasingly commoditized product portfolio hindered operational efficiency and prevented the company from keeping up with peers. Recognizing these challenges, the company initiated a footprint project.

By comparing valuation and operational metrics as well as the impact on shareholder value, A&M highlighted the contrast between retaining the Going Concern view and adopting strategic scenarios such as “Improve as is,” “Focused Divest” and “Closure.”

The Going Concern serves as the starting point for decision-making and reflects the do-nothing view on the asset.

The “Improve as is” scenario unlocks operational value in the cost base, supply chain and go-to-market approach with the goal of restoring competitiveness and freeing up liquidity. Improvement measures are focused on plant efficiency, working capital and make-or-buy optimization. Projects with high savings and short payback periods are prioritized, all being governed by dedicated project management. With a valuation uplift of +10% EV at an increased capex-to-sales

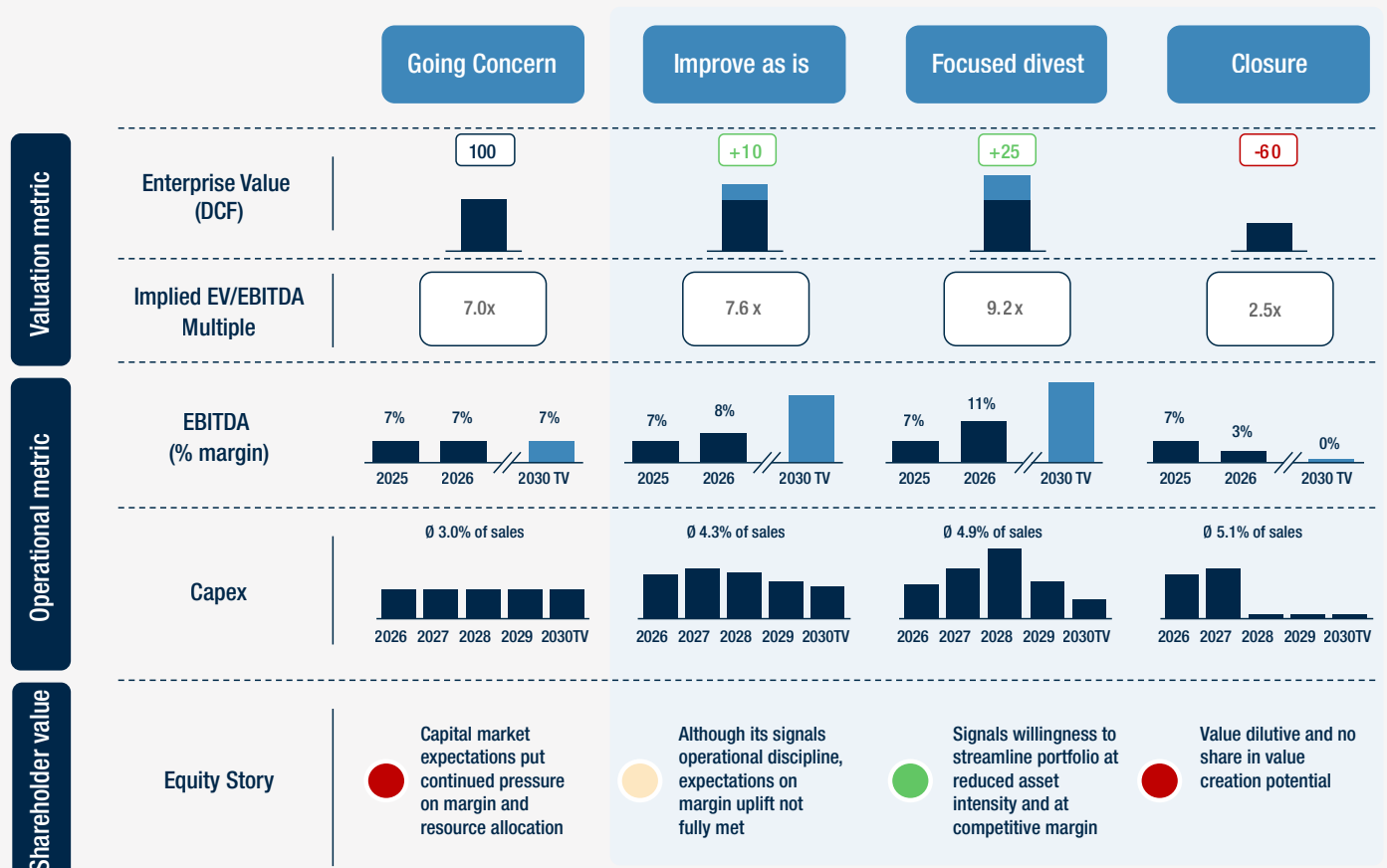
ratio, expectations regarding margin uplift through structural rebalancing of the portfolio are not met. Cash generation and future capital allocation are not optimized.

The “Focused Divest” incorporates most improvement levers identified in the “Improve as is” scenario, but in addition refocuses capital allocation by the sale of non-core assets which may hold greater value under different ownership. With the highest valuation uplift (EV + 25%), this scenario optimizes capital allocation, while supporting the growth of high value businesses. It comes at the cost of increased capex in earlier years. Overall, this scenario demonstrates the willingness and ability of management to streamline its portfolio.

The “Closure” scenario assumes a structured wind-down of the production and the liquidation of non-core assets. It implies significant implementation complexity and is value-dilutive against the Going Concern with a negative EV impact of -60%.

In this instance, management decided that “Focused Divest” was the preferred way forward as it offered the highest value enhancement, capital market credibility and long-term portfolio flexibility. Investors welcomed this decisive leadership, recognizing the company’s strong shareholder focus as a key driver of its continued growth.

Illustration of value considerations in footprint projects





ACTIONABLE INSIGHTS

To recap, the value sensitivity of footprint projects is high. While footprint projects offer significant value creation potential, the mitigation of value risks is a top board priority. As we have noted, the following actions are key to success:

1

Own the transparency on financial and operational performance

2

Put value at the heart of decision-making

3

Create a strong, credible equity story to drive capital market communication strategy

At A&M, we combine deep industry and operational know-how with valuation and financial expertise. We ensure that management is in the best position to make decisions based on a consistent set of financials and deliver a price tag for each strategic option. This makes scenarios financially comparable and decisions transparent.

This concludes our thought leadership series on industrial footprint optimization. For a comprehensive view of the topic, including industrial, compliance and tax considerations, [click here](#) to read all the articles in our five-part series.

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