Operational Due Diligence Of Specialty Jewelry Manufacturer And Printer: Identifying And Quantifying Potential Network And Standalone Improvements

The Challenge: One of Gotham's PE clients was in the process of conducting due diligence to acquire a PE-owned manufacturer of both jewelry and award books. Our PE client's investment thesis required maximizing operations value from improvements in manufacturing and printing beyond those already underway at the target company. Gotham was brought in to help our client understand where the greatest opportunities existed, their potential value, and the level of effort/investment that would be required for their capture.

The Partnership:
Analysis: The Gotham team began operational due diligence with a review of the available information from the deal data room, including financial performance data both at a facility and broader level, suppliers and raw material agreements, employee and labor rate details, manufacturing volumes, and distribution details. To supplement and reality check this information, Gotham also conducted visits to jewelry manufacturing and printing facilities, and interviewed managers.

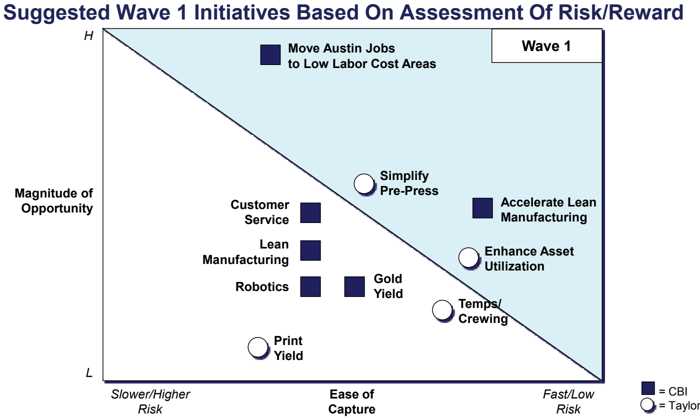
On the manufacturing end, the Gotham team found: a fragmented jewelry network with excessive logistics and fixed overhead; assembly-line style processes with minimal automation; and customer service headcounts that exceeded scale. On the printing end, the team found varying labor rates across facilities, excessive rework in pre-press operations, and low press asset utilization. Benchmarking indicated cost of goods sold as a percentage of revenue was ~5% higher at the target relative to comparable operations.

The team identified a number of potential opportunities in both manufacturing and printing operations:

Jewelry Manufacturing
- Network optimization
- Migration to cell-based manufacturing
- Use of automation in low-skill operations
- Improved yield via mold revisions
- Simplified and automated customer service process flows

Book Printing
- Elimination of rework in pre-press
- Decreased crew size and increased use of temporary labor during seasonal peaks
- Reduced changeover and cycle time
- Reduced waste in make ready
- Network rebalancing.

Suggested Wave 1 Initiatives Based On Assessment Of Risk/Reward



The team then vetted potential opportunities by: modeling facility realignment scenarios and conducting financial sensitivity analyses; reviewing security issues related to gold and other high-value jewelry manufacturing materials; reviewing labor practices and risks; estimating implied headcounts and labor rates and severance costs; and reviewing pilot-test operations and extrapolation of pilot benefits across the network. The team also identified further opportunities, including a pending ERP implementation and sales force effectiveness.

Findings: Gotham-identified opportunities translated into potential cost improvements of $6-8MM for jewelry manufacturing and $4-6MM for book printing. Potential initiatives included a combination of network-related opportunities and standalone manufacturing improvements. Gotham then established suggested priorities based on the potential magnitude of opportunities vs. the difficulty of implementation, with this matrix a critical tool in the assessment of opportunities by the PE team and KeepsakeCo management. Gotham also put together a 100-day plan to jump start capture should the deal be finalized.

The Outcome: Gotham's operational due diligence findings supported the potential buyer's investment thesis that significant operations value opportunites were yet to be captured at KeepsakeCo. Our client's bid for KeepsakeCo was accepted by the seller; shortly after deal close, the management team began executing improvements as laid out in Gotham's 100-day plan, including migration of manufacturing to lower labor cost countries, outsourcing of product finishing processes, and closing of a jewelry facility, leading to capture of outlined savings within a 12 month period.

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