

## Customer & Market Due Diligence Of Specialty Apparel Supplier: Validating Growth And Margin Sustainability In A Consumer Trend-Driven Niche Market

**The Challenge:** Our client, a mid-market PE firm, was in exclusive negotiations to acquire a specialty designer and marketer of apparel accessories in a fast-growing niche of the U.S. apparel market. The target's entrepreneurial founder had managed impressive growth at 50% CAGR over 5 years, even achieving 15-20% EBITDA margins throughout the 2009 recession. Its successful growth strategy focused on private label business and adding key customer accounts in its core, specialty store channels. Attracted by this impressive growth, our PE client sought to validate consumers' lasting preference for the target's niche products as well as its ability to sustain future growth and profitability given potential competitive threats from large branded players. To understand the target's market dynamics, determine retail buyers' decision criteria, pin down growth opportunities, and establish competitive risks, Gotham conducted a 3-week customer & market due diligence.

**Apparel Accessory Niche Market Analysis:** Gotham performed extensive primary research, including: customer interviews with 60+ retail buyers and store managers, data gathering from retail store and retailer website visits, and a 500+ consumer panel survey. We also assessed and profiled key competitors and undertook comprehensive market size/growth analysis. Leveraging our strong expertise in niche market analytics and market modeling, Gotham quickly developed a detailed fact-based picture of the acquisition target and its market and competitive dynamics.

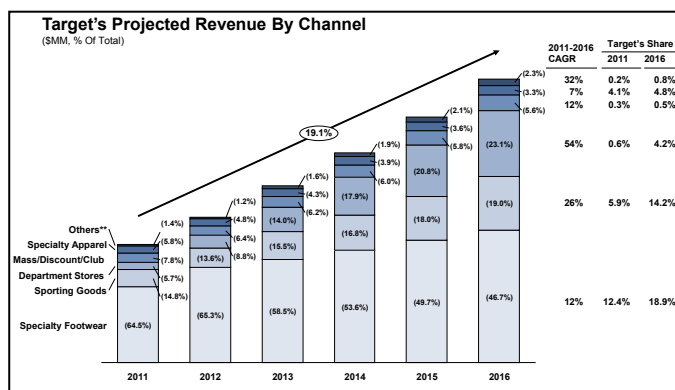
### Consumer Preferences Will Continue To Drive Growth In Core Segment, With Low Risk Of Margin Erosion

Through firsthand validation by retailers and consumers, Gotham was able to substantiate that target's strong performance was being driven by a lasting trend in fashion (vs. a fad) and a shift in retailers' product preferences toward more private label offerings (vs. short-term lift due to economic downturn):

- **Buyer interviews** provided insight into market trends in target's niche segment, which validated expanded scope of private label programs and continued growth of this segment. Our findings also confirmed a low probability of margin erosion, with impulse purchases and private label dynamics providing retailers with margins 10-15 points higher for target's products than those of established national players.
- **Consumer panel findings** pinned down shopping habits and purchase outlook, indicating that 55% of shoppers plan to buy core products in the next 12 months, with average purchases increasing by 9%.

### Well Established In Core Channel And Poised To Capture Growth In Other Key Retail Channels

Gotham established the market size of the target's niche (~\$1B out of ~\$5B total category) and segmented this niche along key criteria (channel, product characteristics, consumer demographics) to estimate target's market share (10-15%) and penetration. We then developed a **robust account penetration and sizing model** to project target's 5-year growth potential. For each retail channel (e.g., Sporting Goods Stores), we projected sales growth for the top 8-10 retail chains (accounting for 60-80% channel share), based on projected same store sales growth and new store openings, and modeled target's revenues based on target maintaining "status quo" share of customer sales. Gotham then reviewed target's pipeline to further refine growth potential, identifying opportunities to gain greater shelf share of existing customers and establish relationships with key new accounts.



Gotham found that target's value-add sales process, in which creative plays a dominant role, should be beneficial in gaining business in underpenetrated channels. Buyer interviews showed that retailers learn of new vendors through sales presentations and pitches, indicating a significant opportunity for the target due to its sales and merchandising strengths – from its category management support to its in-house design capabilities.

Finally, Gotham **assessed the competitive risk** posed by larger branded suppliers by profiling players vis-à-vis key attributes, including product (design, material, technology) and brand (proprietary, licensed, private label) characteristics. Our findings revealed that while the 3 largest players, with ~60% market share, are focused on mass-market products and present a low threat in target's core channels, they pose a moderate constraint to target's further penetration of its non-core channels (e.g., Department Stores). **Comprehensive field research**, including 20 store visits, also revealed that smaller (branded or higher-end) suppliers are beginning to establish a presence in the market, but do not pose an immediate threat to the target.

**The Outcome:** Gotham's customer & market due diligence findings were a key input as our PE client moved forward in the bidding process and successfully closed the transaction. Post-acquisition, our team met with management to go over fact base developed during the effort – setting the stage for them to succeed and make informed decisions moving forward.