

Customer & Market Due Diligence Of Leading Mobility Products

Distributor: Assessing Consumer Willingness To Buy And Lender Willingness To Finance A Lower-Priced Product

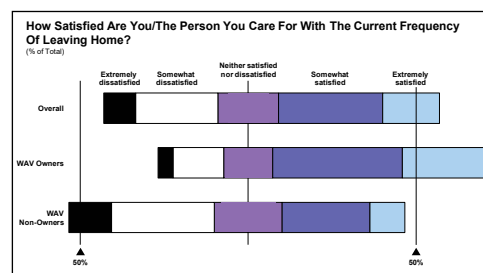
The Challenge: One of our long-time PE clients was looking to invest in a leading distributor of wheelchair accessible vehicles (WAVs) that had grown de-novo and through acquisitions. While the underlying market was growing slowly, the target believed the WAV market was significantly underpenetrated due to a pricing/affordability gap and that there was an untapped opportunity to bridge this gap by offering a new lower-priced product. Our client was excited about the whitespace opportunity in this underserved market and asked Gotham to conduct a 2-week customer & market due diligence to: (1) validate the lower-priced product opportunity; and (2) establish lenders' willingness to finance this product.

Rapid Multi-Dimensional Assessment of Lower-Priced Product Opportunity: To validate the opportunity ahead of the bid due date, Gotham undertook a multi-pronged effort:

- Conducted a consumer panel survey of high-wheelchair-usage consumers, who are either users or caregivers, and surveyed target's customer and prospect database to better understand: mobility needs of people with disabilities (i.e., why and how often they leave their home); availability of and satisfaction level with their transportation options; current vehicle ownership, including purchase and financing details; consumer awareness and willingness to buy WAVs; ability to pay for WAVs; price elasticity; and cannibalization risk of the lower-priced product
- Interviewed 20+ key auto lending executives representing both prime and subprime lenders (e.g., large banks, regional banks, specialty finance companies, credit unions) to understand their: current auto portfolio (e.g., size, origination volume, overall strategy); exposure to WAV; financing requirements for specialty products vs. standard auto products (e.g., hurdle rate, process for underwriting and servicing); and willingness to consider WAV financing
- Conducted a sensitivity analysis of monthly payments for prime, non-prime, and sub-prime borrowers for varying levels of down payment and terms of the loan, and modeled new loan product based on consumers' creditworthiness, willingness for monthly payment plan, and ability to obtain grants.

Untapped Market for a Need-based WAV Product Offering Significant Quality of Life Improvement

Gotham established that wheelchair users need mobility solutions as they frequently leave home for medical appointments, work-related reasons, social occasions, and errands/chores. While the vast majority of consumers have access to transportation options other than WAV, non-WAV users are somewhat or extremely dissatisfied with the limited frequency of trips their options offer. WAV users, on the contrary, had very high satisfaction and were very likely to recommend the product. We established that WAV ownership creates a virtuous cycle of greater/ease of mobility and life-enhancing activities. While the advantages of WAVs were evident, our survey results revealed only ~40% of wheelchair users/caregivers own WAVs, with that ownership concentrated on more affluent consumers.



New Lower-priced Product Allows Capture of Whitespace Opportunity

Although offering a lower-priced product would increase affordability, we conducted A/B testing with consumers to quantify how much untapped demand could actually be captured and whether there would be any cannibalization impact. Gotham determined a lower-priced WAV would open up an additional 20% of the market with minimal cannibalization risk. We established that if the target can develop WAV products at an even lower price point, that would open up even more of the market as every \$5,000 drop in price translates into an additional 10% of the market.

Lenders Open to this Emerging Financing Product but it Would Take Time and Effort to Develop Financing Market

Although we established that a significant portion of WAV buyers are caregivers with excellent credit profiles who need to transport their elderly parents living at home, the key lender considerations affecting financing of WAVs are lack of residual value/established auction market, complexity of underwriting, and relative size of opportunity (the WAV market only represented ~0.1% of the auto loan market) vs. effort required. Lenders were concerned about the residual value of WAVs. Standard valuation guides (e.g., Kelly Blue Book, NADA Guides) did not value expensive mobility components. However, the target had an internal "Blue Book" that has 10+ years of history on thousands of used WAV selling prices – lenders indicated willingness to consider this history as a proxy for resale value. Lenders however flagged the specialized/manual underwriting process required as every WAV loan "has a story", and the repossession complexity due to the non-standard nature of the loan (vehicle, borrower, need, etc.).

While the target was pursuing large lenders as its financing partners, Gotham upon speaking with 3 of the Big 4 banks and 2 of the largest subprime lenders, quickly established that the relative size mattered and the opportunity was too small for large lenders. We established that regional lenders would be willing to pursue WAV lending market; in fact, some regional lenders asked Gotham to introduce them to the target to kickstart the process. However, we established that it would take time and effort to develop this market as the target would have to work with these lenders to: further educate them; and develop financing solutions by analyzing the internal Blue Book, creating underwriting processes and guidelines, potentially including a backstop mechanism.

The Outcome: Gotham provided the client with clarity on the whitespace opportunity and consumer willingness to pay for new lower-priced WAV product. Through our ability to get to the right auto lending decision makers, we were quickly able to establish what the target should expect in terms of financing and which lenders to target. Our client was excited about the opportunity, presented our findings to the target's management, and pursued a more aggressive bid.