

## Market Due Diligence Of Add-On Truck Parts Distributor: Validating The Economic Prospects Of A Geographic Area

**The Challenge:** TruckCo, a \$700MM PE-owned distributor of trucking-related products, was evaluating the acquisition of a \$30MM Michigan-based company as part of its geographic expansion strategy. Michigan's economy, which had experienced significant decline as a result of the 2008 economic crisis, was further hurt by the near collapse of the U.S. auto industry. In 2009, state GDP declined 4.5%, with the state unemployment rate reaching 13.6%, causing serious doubt about the state's ability to recover in the near term. TruckCo asked Gotham to conduct a 2-week assessment of Michigan's overall economy and the relationship between Michigan's economy and the trucking sector.

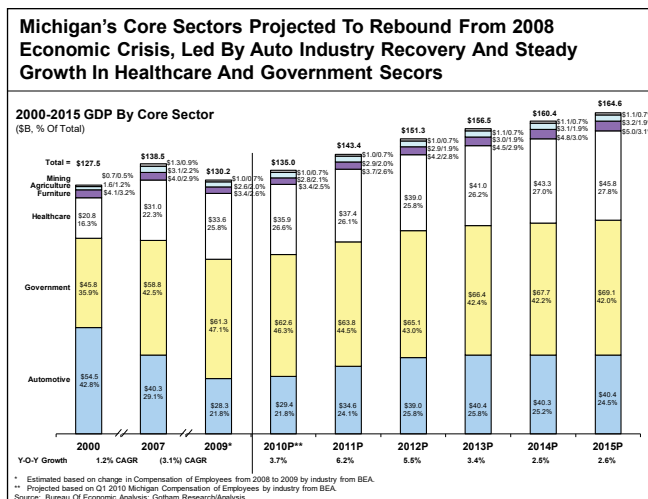
### The Partnership:

**Analysis:** Gotham designed a 3-phase approach to quickly assess Michigan's economic prospects and their implications for the trucking sector:

#### 1. Profile of Michigan's economy:

To create a detailed profile of Michigan's economy, Gotham:

- Used U.S. Census, BLS, and state government data to segment Michigan's economic activity into key industry sectors, while conducting further sector-specific analysis to identify trends in productivity, employment, and industry drivers.
- Further segmented the state's economic activities into 2 groups: core sectors, those industries driven primarily by out-of-state demand or government spend; and dependent sectors, those industries highly correlated to core sector performance, driven by either in-state consumer spending (e.g., retail, consumer services) or in-state business spending (e.g., business services).
- Conducted secondary research to establish the attractiveness of Michigan from a business and regulatory environment perspective relative to competitive states (e.g., unionization, tax regime, labor force skills and availability, infrastructure, government regulations, government business incentives for job creation) and relative to the potential impact of key current and proposed government incentive programs (e.g., incentives for automotive battery plants).



**2. Growth prospects in Michigan over next 5 years:** From our research, we built a detailed forecast model of industry-sector-specific GDP and employment. The 3 largest core sectors (automotive, healthcare, and government/education) accounted for ~95% of core sector GDP. Gotham analyzed automotive market forecasts for both overall U.S. demand and Michigan-based automotive production, examined historical trends in Big 3 production, and assessed existing government incentive programs to project automotive sector GDP. Michigan's healthcare sector GDP was projected to grow due to the state's aging population and per-capita healthcare cost increases. We modeled Michigan's government/education GDP based on historical state budget outlays, federal government support, and demographic shifts in Michigan's student and workforce populations. After establishing GDP growth for the core sectors, we analyzed each of the dependent sectors to determine the relationship with core sector performance (e.g., how trends in consumer spending tend to lag changes in core sector economy).

**3. Business activity and Michigan's trucking sector:** Gotham performed a detailed analysis of Michigan's trucking industry to establish the relationship between Michigan's economy and the target company's performance. Here, we analyzed the historical flow of commodities in the state by mode of transportation, inbound and outbound destination, and type of product moved, to develop a robust fact-base on trucking industry trends, as well as on the key sectors that drive demand for trucking. Using this analysis, we then quantified the impact of an economic recovery on Michigan's trucking sector moving forward.

**Findings:** Historically, relative to its peer states, Michigan has had a poor business and regulatory environment performing below the U.S. economy over the last decade. However, our detailed macroeconomic model indicated that the state's economy was expected to improve from 2010 through 2015, with the unemployment rate steadily dropping. Automotive and related products, which accounted for the largest share of Michigan's truck shipments, would benefit due to growth in the automotive supply chain.

**The Outcome:** TruckCo decided to pursue the transaction as a result of Gotham's due diligence findings, which indicated that Michigan's economy was expected to grow moving forward, providing a direct economic benefit to the trucking sector.