

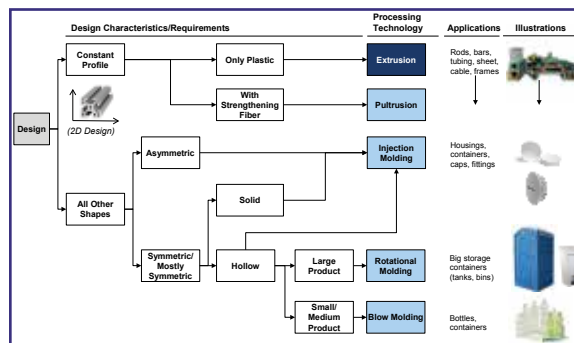
Market Due Diligence Of Diversified Custom Plastic Extruder: Validating Growth Potential In Key End-Markets And Assessing Technology Risks

The Challenge: Our client, one of the largest PE firms, was looking to acquire a leading custom plastic extruder. Through a combination of organic growth and strategic acquisitions, the target had successfully diversified its business into select high-growth end-markets (e.g., aerospace, medical device), and had established itself as one of the few players with a national footprint. While attracted by the target's unique value proposition, our client was concerned about the target's ability to sustain future growth and potential risks from alternative plastic-processing technologies. To pin down the growth outlook of target's key end-markets, the target's competitive positioning, and the technology risks, Gotham conducted a 1-week due diligence ahead of the final bid deadline.

Technology And End-Market Positioning Assessment: Gotham analyzed the competitiveness of plastics extrusion technology vis-à-vis alternative technologies by assessing capabilities (e.g., product characteristics, throughput) versus costs (e.g., equipment, mold/die, and labor). In addition, we also looked at the overall extrusion specialty products market and its competitive dynamics, before performing a top-level assessment of the target's 6 core end-markets. For each end-market, we: (1) established growth dynamics by looking at key market indicators (e.g., global fleet development for aerospace market); (2) evaluated the target's competitive strengths, including price, technology and material considerations, relationships with OEMs, and geographic advantage; and (3) reviewed product and channel dynamics (e.g., extruded plastics utilized, channel structure, key players).

Target's Extrusion Technology Is Most Suitable For Its Products, With Pultrusion Technology A Good Fit To Target's Core Capabilities

Gotham evaluated different plastic processing technologies and assessed if any of these technologies poses a risk of displacing extrusion technology. We concluded that the extrusion process continues to be the most suitable for target's constant-profile-shaped products, because of its lower cost and higher throughput compared to other technologies. In addition, Gotham's analysis showed that a moderate investment in pultrusion machines can significantly increase the target's product offering flexibility, which can be leveraged to better serve its current client network, especially in the aerospace, medical device, and other custom end-markets. For example, in the aerospace industry, pultrusion processing to create lightweight, fiber-reinforced plastic composite profiles is replacing metals in many applications.



Target Is Well-Entrenched With Key Customers In High-Growth Aerospace End-Market

The target is poised to benefit from projected demand growth (8.7% CAGR) for aircraft interior cabin extrusions, driven by new airplane deliveries and retrofit opportunities. Rising fuel costs are leading airlines to reduce the overall weight of their planes by retrofitting their interior cabin with lightweight materials that often incorporate extruded plastic parts into the design. With only a handful of competitors focusing on such value-added products meeting both the strict FAA and manufacturers' performance and aesthetic requirements, the target stands to benefit from the opportunity. Target's long-standing relationship with and qualification as a Tier 1 supplier to Boeing affords the target a place in qualified-suppliers-only bidding process, and an opportunity to benefit from Boeing's expected high growth (12% CAGR) to meet the supply requirement of its 8-10 year aircraft production backlog.

Target's Relationships With Leading Medical Device Manufacturers And Flexibility Of Offerings Provide Opportunity To Gain Share In The Highly-Fragmented, Fast-Growing Invasive Medical Device Niche

Gotham found that the target is well-positioned to grow its share in the fast-growing (8% CAGR) minimally invasive medical device niche. Being on the approved-vendor list of many top medical device suppliers makes the target a strong incumbent because major medical device manufacturers are: (1) risk-averse and will purchase components only from the list; and (2) reluctant to changing vendors/components due to the need for re-approval (FDA 510K). The target's ability to produce most types of tubes (e.g., multi-lumen and co-extrusions) positions it well to gain share in this fragmented niche, comprising mostly medical tubing divisions of diversified plastics companies, small players focused on highly-engineered products, and a few industrial-tubing manufacturers that have successfully moved into the medical space for increased margins.

Target's Competitive Positioning And Growth Opportunity Vary For Other End-Markets

- **Retail:** Target's national manufacturing footprint is a competitive advantage as a vendor to national retail chains, hence positioning the target to benefit from an increase in retail net absorption from 3MM to 26MM sq. ft.
- **Traffic:** Target is a leading player in this end-market, which is likely to be constrained by declining government spending.
- **Fence:** Target has a leading presence with the vast majority of fence distributors and is expected to benefit from a rebound in residential and non-residential construction spending.
- **Lighting:** Target's presence is less strong in the lighting market, which is projected to grow moderately at 4.8% CAGR driven by motor vehicle production and residential housing construction.

The Outcome: Our client was able to make bid decision with confidence as a result of Gotham's due diligence findings, which established target's competitive positioning and growth potential within each of its core end-markets and provided clarity on its plastics processing technology moving forward.