

## Customer & Market Due Diligence Of Niche Natural Gas LDC Safety Equipment Supplier: Establishing Addressable Market And Growth Outlook In An Undefined Market

**The Challenge:** Our client, a PE-owned diversified technical equipment supplier for natural gas local distribution networks, was looking to acquire a leading manufacturer of flow control safety equipment. Our client was excited about the target's growth profile, its opportunity to leverage its customer relationships to accelerate target's growth, and the expected demand surge from a pending Federal safety legislation. However, due to lack of data on this niche market, the client needed fact-based clarity on the addressable market, current penetration level, and growth opportunity. Not satisfied by the reliability of the due diligence report from the consulting firm initially retained and with the deal closure slated in one week, the PE firm, a long-time Gotham client, asked us to conduct a 1-week fact-based assessment to: (1) establish the addressable market size and growth trends for flow control safety equipment; and (2) determine the competitive landscape for flow control safety equipment.

**1-Week Fact-based Niche Market Assessment:** To provide our client needed clarity and detail in an information-poor industry and within an extremely limited time frame, Gotham:

- Conducted 78 interviews and 44 online surveys of natural gas utilities (representing 20% of the total households served as well as various sizes and geographies) to understand the natural gas distribution system, the number of regulator stations, the safety/regulatory trends, future system plans, and the target's competitive positioning
- Developed a robust technical profile of 3 flow control safety technologies and 10 system configurations to compare the target with other flow control safety equipment manufacturers
- Built a utility-level model to establish the addressable market size and growth trends for flow control safety equipment, by:
  - Creating a database of all natural gas utilities in the U.S., their size, and configuration detail for their systems
  - Developing benchmarks for number of regulator stations, flow control configurations, and penetration of flow control safety devices by size and geography of the utility
  - Leveraging utility interviews and conducting secondary research to project future adoption rates of the target's particular device.

### Flow Control Safety Device Usage Determined by Population Density, Utilities' Technical Design, and Climate Change Concerns

Gotham established that there are no regulations or ASME codes on safety equipment usage or configuration; rather, it is the utilities' individual technical design choices that determine their safety control configurations, with the age of the system and the type of end-customer the utility serves (i.e., residential household, industrial plant, farm) being the key design factors. Population density also significantly impacts flow control safety device configurations, e.g., dense urban areas limit use of the target's flow control safety equipment due to noise and health risk concerns. In addition, account these considerations, Gotham modeled the installed base and found the current penetration level of these safety devices to be ~50%, providing clarity on demand for consumables for equipment in service, as well as addressable whitespace opportunity.

### Target's Flow Control Safety Equipment Is Superior to Competing Technologies

Gotham's research and utility discussions established that flow control safety can be achieved using 3 different technologies, which are manufactured by only a few companies. The most common is repurposed flow control equipment that gained favor due to utility technicians' familiarity but it is expensive, requires extra space, is hard to service with the highest risk of failure. The second technology provides protection by shutting down the entire system, thus cutting gas supply to customers. Third is the target's equipment, an overall superior technology as it was specifically designed for this safety application -- it is cheaper and more compact compared to the competing technologies and has the lowest risk of failure.

### Strong Growth Outlook for Flow Control Safety Equipment

Gotham determined that there is growing use of flow control safety equipment, despite most utilities not feeling any regulatory pressure to do so at this moment. As utilities are expanding and upgrading their natural gas distribution systems, they are incorporating additional safety protection. Furthermore, given that natural gas utilities are going through significant investment to upgrade their aging systems, such magnitude and investment drives additional demand for the target's safety equipment. Gotham also established that the passing of potential federal regulation would drive explosive growth for the flow control safety equipment. While the concentration of this demand growth would depend upon how much time utilities have to comply with this legislation, Gotham modeled a 50% increase in market size even with a conservative 10-year compliance period. The only potential headwind Gotham found was that climate change concerns may restrict use of the target's equipment in states with progressive behaviors; however, most utilities do not deem climate change concerns as an issue given the critical safety protection provided by these devices.

**The Outcome:** In 1 week, Gotham was able to provide our client with a detailed, and fact-based assessment of addressable market, equipment usage, and whitespace opportunity for the target's equipment. With the clarity they needed, our client was able to close the deal with confidence.

