Value Creation In Private Equity

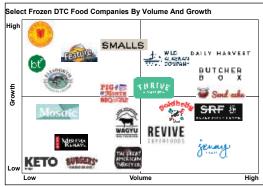
## Customer & Market Due Diligence Of Foodservice Distributor/Fulfillment Services Provider: Deciphering Nascent DTC Frozen Foods Fulfillment Market

The Challenge: Our client, a PE-owned foodservice distributor of meat and seafood products, was considering an acquisition providing geographical expansion into adjacent states. The target had also expanded into direct-to-consumer (DTC) fulfillment of frozen foods sold through the E-Commerce channel. While this expansion provided a new channel for our client and a potential incremental upside opportunity, the client was concerned about the long-term growth prospects of the frozen DTC fulfillment business and the competitive positioning of the target. As a consequence, the client asked Gotham to conduct a 3-week customer & market due diligence to establish: (1) the size and growth outlook of the frozen DTC fulfillment market; (2) the target's competitive positioning in the frozen DTC fulfillment market; and (3) the target's reputation/positioning with foodservice distribution customers.

- Deciphering Nascent E-Commerce Frozen DTC Fulfillment Market: To address these due diligence objectives. Gotham:
- Mapped universe of 350+ frozen DTC food companies and developed detailed profiles of top 150+ companies, including business type (e.g., gifting companies, butchers/farms, retailers, diet companies, branded foods companies, restaurants), business model (e.g., subscription, marketplace, online retailer), and food type (e.g., meat, seafood, prepared foods, desserts, bakery, pet food)
- · Built bottom-up frozen DTC fulfillment market model using website traffic and usage data, online catalog data, volume estimates from customer interviews, and client shipment data
- Conducted 11 "warm introduction" DTC fulfillment customer interviews to understand key decision criteria, target's reputation/ positioning, market growth outlook, and the long-term impact of COVID
- Established competitive landscape of frozen DTC fulfillment service providers and developed comprehensive competitor shipping model, including DC locations, transit time and implications for shipping, packaging, and dry ice cost
- · Conducted 13 "warm introduction" interviews and 73 online customer surveys of foodservice distribution customers to understand competitive dynamics, target's reputation/positioning, and COVID's impact on customers' businesses and growth outlook.

Frozen Foods E-Commerce Expected to Sustain COVID Bump and Continue to Grow Driven by Changing Consumer Habits While traditional businesses (e.g., gifting companies, diet foods companies) have been shipping frozen foods to consumers for many years, the DTC frozen foods third-party fulfillment services market has only emerged in the past few years as several

E-Commerce pioneers launched frozen food offerings with VC investment, Select Frozen DTC Food Companies By Volume And Growth pursuing new business models (e.g., subscriptions, online marketplaces) and catering to Millennials' shift towards frozen foods providing clean labels and convenience. Gotham estimated the market to be evenly divided between traditional businesses and E-Commerce pioneers. Traditional businesses, initially established through other channels (e.g., catalogs, retail locations), are looking to replicate the fast growth of E-Commerce pioneers by increasingly using E-Commerce as an additional channel for consumer outreach/sales. COVID further accelerated the shift to DTC, with customers reporting 25-400% volume increases in Q2 2020 over prior year. Gotham's market model forecasted 2021 demand to land between 2019 and 2020 volume, with steady growth expected as frozen food delivery gains consumer acceptance and delivery costs lower with expansion of fulfilment capabilities.



## Nascent Frozen DTC Fulfillment Industry with No Established Players Creates Growth Opportunity for Target

Target is one of the first frozen DTC third-party fulfillment players, with several other types building capabilities in this emerging market: Frozen DTC Fulfillment Specialists (15-20% share); Dry DTC Fulfillment Providers expanding into frozen (20-25%); Online Retailers providing third-party fulfillment services (20-25%), and Cold Chain Logistics Players (40-50%). While Cold Chain Logistics Players represent the largest market share, only a few have developed piece pick/pack/ship capabilities as they primarily focus on cold storage and FTL/LTL logistics. DTC fulfillment is significantly more complex for them and DTC players also compete with their traditional food retail and foodservice customers. Gotham established that there is a significant opportunity for the target to become a sizable frozen DTC fulfillment player as it received strong positive feedback, with a Net Promoter Score (NPS) of 80 and it excels in all key criteria for selecting fulfillment vendors (communication, service level, and flexibility), with its single DC location the primary challenge to serving a national customer base. Gotham presented low-investment options to achieve an increased footprint enabling 1-2-day shipping across the country (vs. proposed high-capital investment in a new DC).

Target Is High-performing Specialty Foodservice Distributor with Minimal Sustained Negative COVID Impact Expected Interviews and survey responses from foodservice customers (e.g., chefs, restaurant owners, purchasing managers) established target's strong positioning, backed by high performance ratings across key vendor selection criteria (food quality, consistency, and customer service). Customers especially valued target's product knowledge as a custom meat manufacturer and specialty distributor, compared to broadline distributors who received overall negative ratings. While restaurants saw significant impact during COVID shutdowns, they remain optimistic that they will still be operating in a year, with most expecting to be fully recovered by mid-2021. From customer interviews, Gotham also identified incremental opportunity for the target to grow its foodservice business through cross-selling of client's products, increased selling activity, and investment in online ordering infrastructure.

The Outcome: We provided the client with a comprehensive, fact-based assessment of the size and growth of the nascent frozen DTC fulfillment market and the target's positioning in the market. We also established the target's strong positioning as a specialty foodservice distributor, and a positive outlook for the target's customers post-COVID. Gotham's findings enabled the client to move forward with confidence about the potential acquisition.