

Customer & Market Due Diligence Of Retail Damage Prevention Product Manufacturer: Establishing Growth Outlook And Competitive Positioning

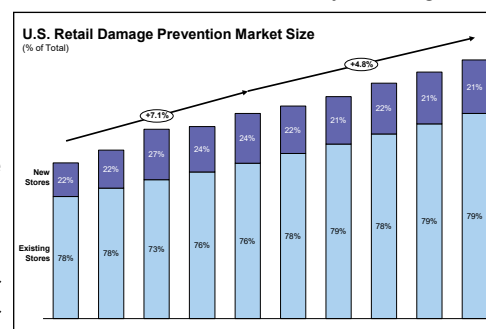
The Challenge: Our client, a middle-market private equity firm, was in exclusive negotiations to acquire a leading manufacturer of asset damage prevention products for retail stores. The target offered a wide range of in-store, backroom, and parking lot products serving all retail channels, including: 47 of the top 50 grocery retailers; mass merchants; home improvement stores; dollars stores; and drug stores. Our client was concerned about the impact of the increasingly challenging brick and mortar retail environment on the target's future performance and asked Gotham to conduct customer & market due diligence to: (1) establish the growth outlook for the target's markets and products; (2) establish the target's competitive positioning; and (3) validate the target's pipeline and growth projections.

Robust Brick and Mortar Retail Growth Assessment: To deliver a comprehensive, fact-based view of the market and competitive dynamics, Gotham:

- Conducted 90 anonymous and "warm introduction" interviews with purchase decision makers and influencers in target's key retail markets to determine: (1) demand for damage prevention products, key trends, and recessionary vulnerability; (2) competitive positioning, selection criteria, and reputation; and (3) buying behavior and key pipeline opportunity status
- Established historical and future growth dynamics by channel by retailer via extensive research on retailer location plans, retail store strategy, construction/remodel spend dynamics, and recessionary risk
- Profiled all major competitors, including detailed information on company size/presence, product portfolio, manufacturing capabilities, and end-market channels/customers
- Built bottom-up retail damage prevention product market sizing model by product segment (in-store, backroom, parking lot), spend type (remodel/refresh, new/existing store, repair/replacement), and channel (grocery, mass, dollar, drug, home improvement, club) based on spend per store and penetration rates.

5% CAGR Growth Projected for Target's Retail Asset Damage Prevention Products

Gotham's market sizing model for the target's products established that ~75% of the market was driven by existing store demand, with new store construction only accounting for 25%. Despite turmoil in brick and mortar retail, total store count has grown at 1.9% CAGR. While grocery and club channels overall continued their steady 1-2% CAGR growth, select grocery chains (e.g. Publix, Sprouts, Aldi, and Whole Foods) have expanded faster and dollar stores have grown store count at 5% CAGR. Given that food retailers typically remodel/refresh their store in ~8-year cycles, there is an ongoing existing store demand. This demand has been further amplified by accelerated remodels to address growing consumer preference for fresh and refrigerated foods and food areas at food retailers (e.g. deli, dining area). Furthermore, consolidation in the industry has created additional demand for damage prevention products as acquiring retailers remodel stores to their brand/specifications.



Market-leading Position Built on Solid Relationships, Quality Products, and Solutions-driven Approach

Gotham's analysis of competitors' product offerings determined that the target offered the broadest range of products and maintained the highest product quality. The target was the clear market leader by a wide margin for in-store offerings, while holding a strong position in parking lot and backroom products. The target was also highly rated on a number of key purchasing criteria for customers, including relationship, innovation, product look, durability, product selection, and reputation. Asset damage prevention products accounted for a very small portion of total construction budget, so customers and their fixture/case suppliers relied on vendors for developing asset damage prevention solutions. Once a solution was designed, customers purchased these products for new store construction, remodel/refresh, and repair/maintenance on long-term contracts, providing steady ongoing revenue. Gotham determined that the target was strong at developing these solutions and, in doing so, worked closely with their customers' purchasing departments and fixture/case suppliers.

Target Growth Projections Achievable (Based on Base Market Growth and Sales Pipeline Validation)

Gotham determined that the target's base growth projections were in-line, perhaps even slightly conservative, compared to Gotham's bottom-up market growth projections. Beyond base growth, the target had also projected growth from the roll-out of new opportunities at select customers assuming a 50% capture rate. Gotham's customer interviews confirmed that these new opportunities were indeed in the customers' plan at various stages – some were immediately actionable business opportunities while others were pilot programs with decisions to be made at a later date. Gotham determined that the target company's new business projections were achievable at the assumed 50% capture rate.

The Outcome: Gotham's comprehensive, fact-based assessment of the retail growth outlook, targets competitive positioning, and pipeline sales allowed our client to overcome concerns about brick and mortar retail turmoil and gain confidence in the target's growth outlook. Excited about the target's niche market leadership, our client closed the transaction successfully.