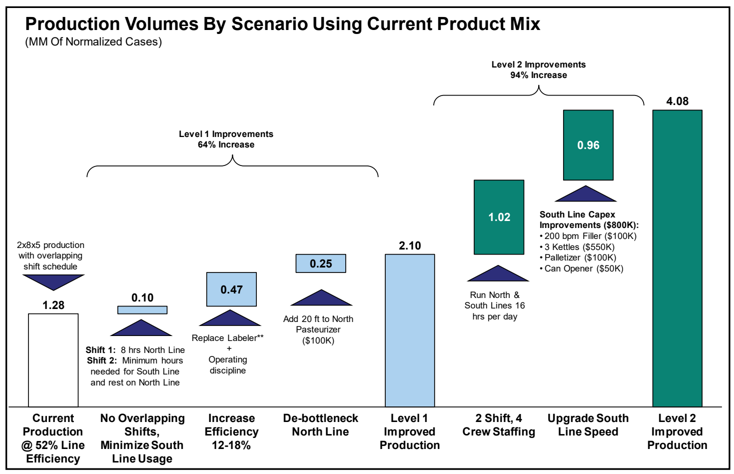
Operational Due Diligence Of Family-Owned Specialty Foods Company:
In A Data-Poor Situation, Confirming Operational Readiness To Support Targeted National Growth

The Situation: Our client, a mid-market PE firm, was in exclusive negotiations with a regional premium specialty food manufacturer and believed this conservative family-owned business could be taken national with a more aggressive sales push. As with many family-owned businesses, however, operational data was scarce, making it especially challenging for the PE firm to get a reliable sense of capacity and other areas of concern. To ensure there would be no surprises requiring large capital expenditures post-acquisition, the PE firm asked Gotham to conduct a 4-week due diligence of the company's operations to: determine the plant's maximum throughput and improvement opportunities; assess potential risk factors (e.g., equipment replacement requirements, food safety); and find and quantify cost reduction opportunities.

Reliable Information In Data-Poor Situation: As Gotham does in other data-poor situations, we pieced together the facts by: collecting and scraping data from original sources (e.g., pdf records of sales, purchasing, and inventory); conducting detailed observations of the manufacturing operations (evaluating equipment, labor, downtime, changeovers, etc.); and scrutinizing financial statements and assumptions; conducting management discussion; and leveraging our industry knowledge and proprietary benchmark databases.

Sufficient Capacity To Meet Targeted Growth For Next 5 Years With Only Initial Small Capex

1. **Understanding of current capacity on hold:** developing bottom-up model using machine speed to simulate the production environment; identifying bottlenecks for each SKU; calculating overall plant capacity; and calculating **current line efficiency of only 52%.**
2. **Developing throughput enhancement opportunities** in by leveraging our operational expertise and building prioritized improvement scenarios into the capacity model to quantify production increases and cost savings.
3. **Determining the plant could easily produce 1.5-1.6x current volume** through efficiency increases and small capex. If needed, with larger capex and increased line hours, the plant could produce 3-3.2x current volumes.



Low Risk Of Major Equipment Capex Requirements/Other Operational Issues

To pin down potential upcoming capital expenditure requirements and give our PE client more accurate capital expenditure projections for their financial valuation, Gotham created an equipment profile by reviewing asset lists, analyzing maintenance records, and leveraging our extensive experience in food and beverage manufacturing. We deemed equipment to be in good shape with no major upgrades needed, but outlined replacement requirements for both reliability and age issues over next 3-5 years.

Gotham also conducted detailed reviews of food safety and quality practices, and assessed key personnel, management processes, information systems, and performance reporting. We deemed that systems and reporting are outdated and food safety is only a small risk. We also found a highly motivated management but lacking in manufacturing/food processing background. To help management moving forward, Gotham identified key performance indicators, reports, and process improvements.

Significant Untapped Cost Savings Opportunity (3-7% Of Total Cost Basis)

Throughout our due diligence, Gotham identified cost savings opportunities including 15-20% cost per case savings from labor and overhead reductions once production efficiency improvements are captured. For warehousing and distribution operations, we developed a cost breakdown model to reorganize costs into more conventional groupings. By quickly benchmarking these reorganized costs, we were able to identify savings opportunities. We also identified 20-25% inventory reduction opportunities with slow-moving/obsolete inventory and 8-10% product waste opportunity.

To help the PE owner and food company management hit the ground running post-acquisition, we provided a value creation plan to first capture quick-wins in the opportunity areas noted above, and then the longer-term opportunities required for cost leadership and operations enhancement as part of successful transition from a regional to a national company.

The Outcome: Our PE client, armed with our fact-based due diligence, gained assurance that the company's plant is capable of supporting national expansion without significant capex. Our work also outlined potential savings of 3-7% of the total cost basis and provided guidelines on how to achieve those savings. The PE firm proceeded ahead and successfully purchased the company and has begun executing the value creation plan outlined in the due diligence.

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