

Customer & Market Due Diligence Of Leading Supplier Of Synthetic Fiber For Nonwovens: Establishing Competitive Positioning/Margin Sustainability

The Challenge: One of our PE clients was looking to invest in a family-owned manufacturer and distributor of synthetic fibers for nonwoven applications. Our client was attracted by the target's industry-leading position, long-standing customer relationships, and exposure to diversified end-markets (e.g., furniture & bedding, automotive, filtration, hygiene, medical, construction/geosynthetics). However, given the commodity nature of the product, our client was concerned about the target's competitive positioning and sustainability of its margin expansion achieved during COVID. As such, our client asked Gotham to conduct a customer & market due diligence of the target with the following objectives: (1) establish target's competitive positioning/margin sustainability; (2) establish synthetic fiber industry dynamics and target's market size/share; and (3) establish the growth outlook for key end-markets.

Fact-based Competitive Positioning Assessment Of Globally-sourced Commodity Product: Gotham undertook a comprehensive effort over 2 phases (2-week pre-LOI Phase I and 3-week Phase II) to establish market and competitive dynamics:

- Analyzed customers' product offerings and synthetic fiber usage to establish where target competes within the synthetic fiber market in terms of: nonwoven production (e.g., needlepunch, thermal-bonded, spunbond, spunmelt, blown fiberfill, wet-laid, air-laid); fiber type (e.g., solid, hollow/conjugate, fine/high denier, silicized, virgin/recycled); applications; and customer size
- Conducted 86 anonymous and "warm introduction" interviews with target's customers to establish: customers' supplier selection criteria and target's reputation; customers' buying behavior (manufacturer vs. distributor, import vs. domestic, spot vs. contract); impact of COVID and supply chain disruptions, growth outlook of, and potential impact of recession on their business
- Established end-market dynamics, including: specific synthetic fiber applications and fiber type substitution dynamics; end-market size and growth trends; import vs. domestic manufacturing trends; and end-market competitive structure, top industry players, and the target's wallet share with key industry players
- Built a global capacity and manufacturer-to-distributor product flow picture by fiber type and profiled key manufacturers/distributors and established their market shares by leveraging management, customer, and competitive interviews and import data analysis.

Target Is Uniquely Positioned To Offer Quick Turnaround Availability For A Globally-sourced Commodity Product

While large synthetic fiber users may buy directly from manufacturers, distributors capture 49% of the addressable market by offering international sourcing relationships, import logistics, and inventory availability. Distributors capture a higher share of imports (67%) than of domestic manufacturing (53%) as many international manufacturers rely on distributors to access the North American market. The target is the largest player in the synthetic fiber market and is well-regarded by its customers, with a very high NPS score. In addition, customers highlighted the target's key differentiation as being its domestic manufacturing capabilities and excellent product availability, with no supply disruptions during COVID.

Target's Margins Expanded In This Price-sensitive Market Due To Supply Chain Disruptions Caused By COVID

While the target offers commodity products (characterized by purchases on spot or short-term contracts), it benefited from several favorable trends that contributed to margin expansion. Section 301 tariffs on Chinese products, anti-dumping duties on key international manufacturers, and higher container cost due to COVID all drove landed price of imported products higher, leading to higher domestic prices. Furthermore, COVID-induced raw material price volatility and supply chain disruptions resulted in increased variation in synthetic fiber prices and increased customer focus on product availability rather than price. Although customers face no barriers to switching suppliers, if their machines are configured with a particular supplier's fiber, they are reluctant to switch unless the price difference is over 10%. Lastly, customers indicated pushback on prices from retailers expecting decreased demand post-COVID and anticipated that this decrease would trickle down to synthetic fiber suppliers.

Furniture & Bedding Expected To Decline From COVID-driven Demand Surge While Automotive To Grow Due To Increasing BEV Production

Synthetic fiber usage is prevalent in furniture & bedding manufacturing to provide cushioning (e.g., upholstered furniture, cushions, pillows, mattresses, pet beds), with the bulky nature of these products lending itself to more domestic manufacturing. Furniture & bedding demand surged during COVID but demand declined recently as spending shifts away from home goods and inflation is impacting spending.

Automotive synthetic fiber usage is increasing in acoustic insulation applications throughout the vehicle (e.g., trunk trim, wheel arch liner, undercarpet padding, headliner) to improve noise reduction, reduce weight, and reduce cost as well as to increase recycled material content in the car to support ESG goals of automotive companies. Additionally, synthetic fiber demand is expected to increase further with growth in battery electric vehicles (BEVs) – from 6% of total vehicle sales in 2022 to 14% in 2030 – as BEVs have 15-25% more synthetic fiber content than conventional ICE vehicles due to increased acoustic insulation requirements.

The Outcome: Gotham's rapid Phase I assessment provided a robust view of the target's competitive positioning and margin sustainability, allowing our client to secure an LOI. Through Gotham's Post-LOI effort to establish the target's reputation with its customer base, capacity/product flow picture, and end-market outlook, we provided our client with a comprehensive, fact-based view on the target's market and competitive dynamics, enabling them to successfully close the deal.

