

## Customer & Market Due Diligence Of Premium Dessert Supplier: Establishing Consumption and Shopping Behavior Post-COVID

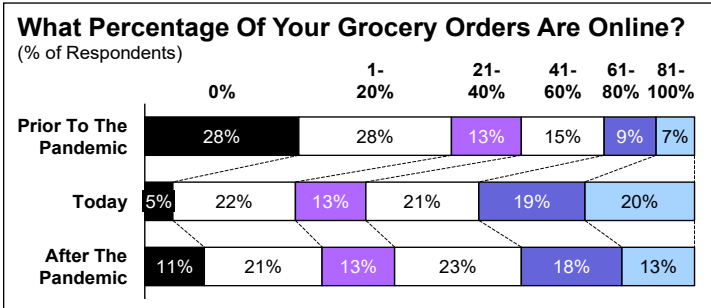
**The Challenge:** Our client, a mega-fund PE firm, was looking to acquire a premium dessert company serving both retail and foodservice channels across the U.S. and Canada. While attracted by the target’s leading market position in the premium dessert segment and the potential for expansion through add-on acquisitions, our client was concerned about the long-term impact of COVID on the target’s business and wanted to get an early read on market and competitive dynamics to inform a decision on whether to move forward with the deal. With this decision pending, our client asked Gotham to conduct an early 3-week Phase I customer & market due diligence to establish: (1) U.S./Canada retail premium dessert market size/consumer trends; (2) U.S./Canada retail in-store bakery (ISB) dynamics; and (3) U.S./Canada foodservice premium dessert market size/dynamics.

**COVID-impacted Consumer Behavior Analysis:** Gotham took a multi-pronged data-driven approach to establish the impact of COVID on retail and foodservice dessert demand, which included:

- Conducting an online survey of a ~2,000-consumer panel to determine consumers’ pre-COVID dessert consumption and celebration behavior, their pre-COVID grocery and dessert purchasing behavior; and the impact of COVID on their celebration and grocery/dessert purchasing behavior
- Analyzing NielsenIQ data at the retailer level to profile the retail premium dessert market size and sales trends by product category, understand the impact of COVID on retail bakery and dessert sales, and model the retail sales growth outlook
- Conducting ~50 anonymous interviews with retail bakery managers, bakery buyers/category managers, and foodservice dessert buyers to determine: retail premium dessert market and ISB dynamics, including the impact of COVID; the foodservice premium dessert market, customers’ buying behavior, and the impact of COVID on foodservice sales; and the dessert supplier competitive landscape and key buying criteria
- Conducting secondary and primary research, leveraging available data from companies, industry associations, SEC filings, research reports, and other sources to understand performance and business outlook of key retail and foodservice customers and to establish the competitive landscape of key dessert suppliers.

### ISB Is An Important Department For Food Retailers And Expected To Grow After Slight Pullback During COVID

Before the pandemic, ISB was one of the fastest growing grocery departments as it attracted consumers to stores as a destination department and the smell of freshly-baked bread helped convey freshness throughout the store. However, ISB department sales declined 2.2% during COVID while packaged bakery department sales grew by ~9%. During COVID, curbside pickup and online delivery increased ~50% with a direct impact on ISB sales. ISB offers fresh items that often do not have standard SKUs and ISB purchases are often impulsive – consumers like to browse and pick items that “catch their eye”. However, online shopping only offers a limited selection of ISB items and the online browsing experience does not fully reflect ISB products resulting in low ISB goods uptake in online orders. In-store sales were also impacted because ISB goods were put behind displays and wrapped in additional packaging due to health concerns, so these safety measures took away from the shopping experience and the appearance of freshness. The ISB segment is expected to recover from the pandemic hit not only because of the return to in-person shopping and to a more “open” ISB shopping experience but also because recently some retailers have made innovations to their online ordering platforms allowing for an easier browsing process for ISB items. The target is well-respected by major food retailers in the U.S. and Canada and is well-positioned to grow overall due to market growth, innovation, and market share gains.



### Retail Dessert Market Projected to Grow As Consumers Maintain More Indulgent Behaviors

Our consumer survey revealed that dessert purchases are impulse buys for indulgence and during COVID, consumers increased their levels of indulgent consumption and are expected to maintain it at a higher level than before the pandemic. The target was able to take advantage of these changes in consumer behavior as its products are more likely to be consumed at home during dinner/evening and are less reliant on celebrations and small gatherings that were significantly impacted by COVID. Going forward, the premium dessert retail market is expected to grow 6.3% CAGR through 2025, with the target’s served categories growing at a faster rate. The target is well-positioned to benefit from this new consumer behavior, as it is one of the few scale premium dessert suppliers in a market primarily comprising many niche, small suppliers and can continue its growth via acquisitions.

### Target Has Presence At Top Casual Dining Chains And Distributors, With The Foodservice Market Expected To Recover

The target’s premium dessert offerings are more geared toward the full-service restaurant market (accounting for 30% of the ~\$1.7B foodservice dessert market), which was significantly impacted during the pandemic as lockdowns and health fears drove people away from in-person dining. Even though restaurants shifted to delivery/takeout orders, desserts had low uptake in take-out/delivery orders – the foodservice dessert industry experienced a ~20% drop in sales in 2020. However, with the return to in-person dining, Darden and Bloomin’, the two largest full-service casual chain operators expected, for example, 8-9% growth in 2021.

**The Outcome:** Gotham’s in-depth assessment of the premium dessert market provided a clear view of: the impact on dessert sales in the retail and foodservice segments during COVID; consumer dessert consumption and shopping behavior trends; and the target’s growth opportunity. Armed with a solid fact-based understanding of the target’s market, competitive dynamics, and growth potential, our client’s deal team was able to reliably inform its investment committee on the opportunity.