

## Customer & Market Due Diligence Of Event Services Company: Conducting Pre-Management Meeting Assessment Of Market Position And Recession Risk

**The Challenge:** One of our long-term PE clients was considering an investment in a leading provider of niche production equipment to corporate events. The target had rapidly built a national network of 24 branch locations in major cities hosting corporate events through both acquisitions and greenfield locations and was planning acquisition-driven growth by adding branches in secondary cities and expanding into additional product lines. Our client was attracted by the growth opportunity the target presented and wanted to gain a better understanding of the target's market position, availability of acquisition candidates, and recession risk as critical threshold issues ahead of the management meeting. To this end, our client asked Gotham to conduct a rapid 2-week customer & market due diligence effort to: (1) establish the demand for the target's products; (2) understand the competitive landscape and determine availability of acquisition candidates; and (3) assess the target's cyclical exposure/recession risk.

**Rapid Assessment of Threshold Issues Before Management Meeting:** To quickly provide our client an actionable set of information in an information-poor industry, Gotham undertook a multi-pronged effort:

- Conducted 130 interviews with AV production companies, service contractors, corporate event departments, event planners, creative agencies, venue providers, and competitors to understand product usage and trends, outsourcing levels and threat of insourcing, vendor selection criteria, target's reputation and positioning, competitive landscape, recessionary impact on events and product usage, and product line expansion opportunities
- Developed a bottom-up view of the competitive landscape by identifying 100+ players, quickly profiling these players to create a segmentation scheme comprising 8 types of competitors, with a more robust profile of target's key competitors
- Built a market sizing model based on available industry data and interview findings, and established the demand for the target's products and outsourcing levels by event type, as well as historic and future growth rates for the outsourced segment
- Leveraged available industry data and conducted research to establish corporate events market facts and dynamics; conducted top-level assessment of expansion product categories
- Modeled the impact of recession on the target's product demand by establishing: the impact of the 2009 recession on the corporate events industry; the impact of associated event cancellations/size reductions on the target's product demand; and any shift in outsourcing dynamics during the recession.

### Complex, Multi-party Decision-making and Customers' In-house Inventory Key Drivers Of Rental Demand

Gotham established that demand for the target's products was dictated by several factors and decisions made during the corporate event lifecycle. First, the need for the target's products was a function of the event type – conferences/conventions with keynotes and product launch events had higher usage of the target's products while corporate/business meetings and trade shows/exhibitions had lower usage. Second, the choice of venue type and creative & design decisions, influenced by involvement of a creative agency, dictated whether the event would require the target's products and what type – standard or specialized. Third, whether or not the event sponsor used an event planner was critical as event planners typically have relationships with small AV production companies while corporate event managers rely on the venues' in-house AV production companies which tend to be larger national companies. Lastly, the amount of product owned by the AV production companies decided the level of outsourcing as many production companies own standard products to meet their baseline demand and only outsource non-standard products or overflow demand for standard products.

### Limited Availability of Acquisition Candidates Despite Fragmented Market

While the offering memorandum suggested a fragmented market, Gotham established that most of the smaller players in this industry serviced both corporate events and weddings and were not appropriate acquisition candidates for the target due to its singular focus on corporate events. Historically, the target had leveraged its relationship with national AV production companies to develop branch locations in new metropolitan areas as no pure play corporate events service providers were present in the target's expansion metropolitan areas. There was only a limited value in the target acquiring existing pure play corporate events players as their geographic footprints overlapped and the target was already a preferred service provider with most large customers due to its high rating across customers' top selection criteria – product quality, service, and availability of product.

### Demand for Target's Products Less Impacted During Recession than Overall Corporate Events Industry

The corporate events industry typically is very susceptible to recession, as travel expenses is one of the first items cut. In fact, in the 2009 recession, overall corporate events spend declined 25% and hotel group booking, a key indicator of event attendance, declined 19%. This behavior was further confirmed by our interviews as most interviewees indicated a significant decline in both the number and size of events. However, Gotham established that the recession's impact on the target's product demand was muted by ~10% points due to several factors: (1) demand for the target's products was over-indexed on annual conferences and other large events that typically did not get cancelled; (2) target's products are a core part of the environment for keynotes so event producers scale back on food & beverage and other expenses, but not the target's products; and (3) as AV production companies reduce CapEx to renew their product inventory during the recession, it leads to increased outsourcing demand.

**The Outcome:** Gotham's pre-management meeting work allowed the client to gain a clear picture of the target's growth opportunity and risks. After the management presentation, the client's investment committee concluded that the recession risk outweighed the limited potential to generate outsized returns and decided to stop pursuing the opportunity. By undertaking this early assessment (rather than a more traditional approach of conducting the assessment after the management meeting), Gotham's client was able to make a no-go decision a few weeks sooner and was able to redirect its resources towards other opportunities.

