

Operational Due Diligence Of Premium Fresh/Frozen Food Manufacturer: Rapidly Pinning Down Capacity/CapEx Issues To Support 2nd Round Bid

The Challenge: Our client, a mid-market PE firm, was preparing its 2nd round bid in a hotly contested auction for a manufacturer of premium fresh and frozen food products. The target had grown quickly and was the leader in its niche market. With 3-year CAGR projections of 10-12%, the target's management believed \$15+MM in manufacturing CapEx would be required to ensure sufficient capacity for meeting expected sales growth. In order to submit a competitive bid, the PE firm asked Gotham to develop an understanding of the target's true capacity picture and potential options to overcome stated capacity constraints, as the level of required CapEx directly impacted our client's valuation of the target. A rapidly approaching Round 2 Bid due date gave Gotham just 3 days to determine CapEx realities by testing capacity assumptions, identifying throughput enhancement opportunities, and understanding potential co-pack options.

3-Day Capacity And CapEx Assessment: To rapidly provide a robust, numbers-driven answer to the CapEx requirements, Gotham:

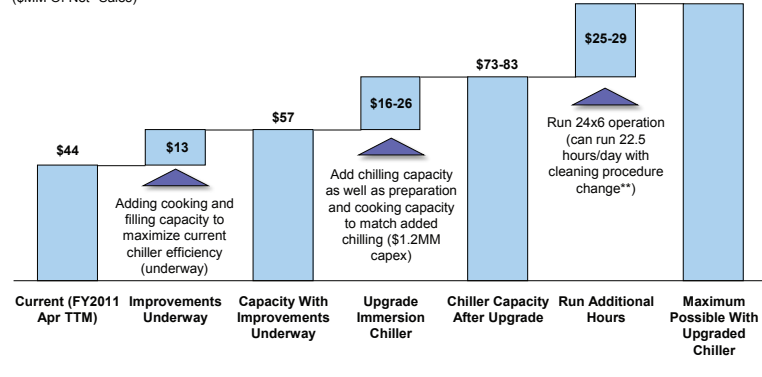
1. Thoroughly mined the data room to build a preliminary plant and equipment profile, while drawing on our extensive food industry knowledge to hypothesize potential capacity constraints;
2. Verified our profile and hypotheses with the target's operations management team via a conference call; and
3. Specified an agenda and worksheets for clear, easy capture of critical operational information to facilitate getting the most from our site visit which included a walkthrough of operations and in-depth management interviews.

Nearly 3x Stated Capacity Achievable Through Minimal CapEx And Operating Improvements

Gotham built a comprehensive capacity model and ran a variety of throughput enhancement scenarios. We determined, contrary to management assumptions, throughput could be substantially increased through minimal CapEx to improve current inventory of equipment coupled with disciplined operating practices. Further, by adopting newer food industry operating methods, the plant could safely operate 24 hours/day. Collectively, these improvements would nearly triple total plant capacity – at a cost far below management's assumptions. In addition, up to 125% additional capacity could be gained with investment in 1 additional production line, an upgrade that would still cost far less than what had been proposed.

3x Current Capacity Readily and Inexpensively Available

Breakdown of Line 1 Throughput Enhancement Opportunities (\$MM Of Net* Sales)



Quick-Win Opportunities Cut 10% Of Costs

From our initial analysis of the plant's sales breakdown across SKUs and their cost data, we hypothesized easy methods for cutting costs, which we were able to validate during our site visit. Associated quick-wins (improved labor cost, material usage, product pricing, and reduced overhead) total ~10% of current costs.

Regional Efficiency And National Growth Achievable Through Use Of Co-Packers

Gotham developed a detailed profile of the plant's products and related production requirements. We then leveraged our relationship network to confidentially reach out to over 30 potential co-packers to gauge their capabilities and potential level of interest in engaging in production partnerships with target – 9 co-packers that were a strong fit indicated desire to be involved in such a venture. We laid out two strategies for utilizing co-packers: 1) expansion of current footprint and improve efficiency of operations through improved SKU management and/or 2) development of a broad network to create nationally recognized brand without CapEx.

The Outcome: Armed with clarity on current capacity, a more nuanced picture of CapEx required for growth, a wider view of potential expansion options, and a target list of potential co-packers, our PE client was able to make the most informed assessment possible and pursue the deal with increased confidence in the potential for existing capacity to accommodate growth.