

## Customer & Market Due Diligence Of Pressure Sensitive Label Company: Deciphering COVID-driven Customer Growth Outlook

**The Challenge:** Our client, a leading PE firm, was looking to acquire a mid-size printer and converter of labels and flexible packaging. Attracted by the target's favorable end-market growth due to COVID, its established long-standing relationship with blue chip customers, and a historically stable market, our client wanted to validate sustainability of the COVID-driven demand bump and the target's competitive positioning in the pressure sensitive label market. As such, our client asked us to conduct a 3-week customer & market due diligence to: (1) establish the growth outlook for the target's key customers; (2) establish the market dynamics and outlook for pressure sensitive labels; and (3) determine the target's competitive positioning/reputation in its core pressure sensitive label market.

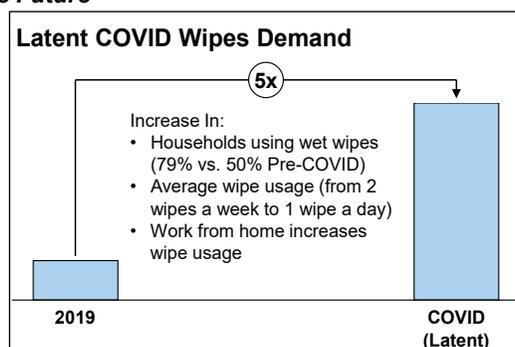
**Modeling COVID-driven Demand Outlook:** To pin down the target's growth outlook in an uncertain COVID-driven demand situation, Gotham:

- Built a disinfectant wipes supply and demand model by: establishing current capacities and planned capacity expansion of key manufacturers; and estimating latent demand based on consumer cleaning practices during COVID and anticipated longer-term behavioral changes
- Modeled N95 mask demand outlook by: establishing demand surge in 2020; understanding capacity/supply picture; and estimating frontline worker usage in different vaccination and pandemic scenarios
- Conducted 27 interviews with the target's customers and competitors to gain insights into: the demand outlook for key customer end-markets; the competitive dynamics and decision-making criteria for pressure sensitive labels; target's reputation/positioning among pressure sensitive label suppliers
- Profiled the target's key customers and their end-markets (e.g., nutraceutical, home care, medical supplies, alcoholic beverages) to pin down the target's growth outlook
- Leveraged Gotham's knowledge base and industry data to establish pressure sensitive label market size, growth outlook, and key trends – overall and by label type, material, printing technology, and end-market
- Conducted secondary research and competitor interviews to segment and profile pressure sensitive label players

### **The COVID-driven Market Jump Expected to Sustain for the Foreseeable Future**

With the disinfectant wipes market severely supply-constrained during the initial months of COVID, Gotham estimated latent demand to be 5x the size of pre-COVID market. While the wipes manufacturers were able to achieve an ~40% ramp-up in production via operational improvements, SKU reductions, and capacity shifts from other types of wipes, new capacity was only expected to fully come online during the first half of 2021. Gotham determined that the demand for the target's packaging will likely continue to grow as more disinfectant wipes capacity comes online and is expected to remain at this elevated level for the foreseeable future due to no anticipated shifts in household cleaning behavior.

In 2020, the N95 respirator market jumped 4x (over 2019 demand) driven by a much higher usage amongst frontline healthcare workers – growth would have been greater had the market not been supply constrained. Gotham's model projected the market to increase through 2021 as additional supply comes online, but then it is expected to drop gradually as frontline workers are vaccinated but still remaining significantly higher than pre-COVID demand.



### **Large Pressure Sensitive Label Market Expected to Continue its GDP+ Growth with Some Technological Shifts Underway**

The U.S. pressure sensitive label market (76% of the total label market) is expected to grow at 3.5% CAGR, driven by growth in key end-markets, regulatory requirements, technological advances, and an ongoing shift away from glue-applied labels. Shrink sleeves, which the target also supplies, are gaining favor as they maximize marketing space. The target participates in the largest end-market, Food & Beverage, which accounts for 64% of primary packaging demand and is growing due to increased product segmentation and SKU proliferation. The target also participates in the fastest growing end-market, Pharmaceuticals, which is growing due to the aging population and an increased amount of information mandated on packaging. Gotham also established that while flexographic printing makes up over half of the overall label market, digital printing is growing the fastest (8.4% CAGR). However, digital printing is only cost-effective for very short runs due to higher ink cost and offline finishing process. A newer hybrid flexographic press with digital printing stations is expected to offer variable printing benefits but in a more cost-efficient manner.

### **Target Is a Well-regarded Player in a Fragmented Pressure Sensitive Label Market**

The pressure sensitive labels market is segmented based on level of complexity and volume of manufacturing, with the market comprising: 2 \$1B+ players; 8 large players; 10-20 midsize players (including the target); and 200+ "Mom & Pop" small players. Pressure sensitive label companies build their business through achieving and maintaining long-standing business relationships with their customers. However, most customers maintain multiple vendor relationships for redundancy of supply and encourage competitive bidding for price competition. The target is well regarded by its customers who value the target's location, quality, customer service, and responsiveness – all areas that customers focus on in vendor selection.

**The Outcome:** We reinforced our client's initial thesis that the target is a promising investment opportunity, due to the target's high-performing customer end-markets, overall GDP+ market growth, and the target's established and well-regarded position in the fragmented label market. Our client was able to move forward with confidence and successfully closed the transaction.