Market Due Diligence For ~$1B Trucking-Related Products Distributor:
Validating The Economic Attractiveness Of Geographic Expansion Into 3 States

The Challenge: Our client, a ~$1B PE-owned distributor of trucking-related products, was considering expanding into 3 new states (Wisconsin, Minnesota, and North Dakota). Through aggressively acquiring small regional competitors, this distributor had established a leading market position as the largest national player in its market. Following the 2008/2009 recession, Gotham established the attractiveness of market expansion into the state of Michigan through the assessment of state-level macro-economic performance and the impact on trucking activity. Armed with Gotham's projections for Michigan's recovery, our client launched its entry into Michigan through a successful acquisition of a strong regional player. Appreciative of the value of Gotham's earlier assessment, our client asked us to conduct a similar analysis of its 3 current target entry states. To establish the growth prospects of each state's economy over the next 5 years and determine the implications of economic growth on the trucking sector in each state, Gotham conducted a 3-week market due diligence.

State-Level Economic Analysis: To deliver a thorough analysis, Gotham:
- **Profiled each state's economy**, including: (1) segmenting its economic activity into key industry sectors while identifying sector-specific drivers and trends; (2) understanding core sectors, industries driven primarily by out-of-state demand, and dependent sectors (i.e., industries driven by either in-state consumer or business spending) that typically correlate to core sector performance; and (3) establishing state business and regulatory environment (e.g., unionization, tax regime, labor force skills and availability, infrastructure, government regulations) and the potential impact of key current and proposed government incentive programs
- **Built a robust forecast model of industry-sector-specific GDP** and employment for each state's economy by: (1) establishing growth projections in each of the core sectors and (2) determining growth in remaining sectors based on the correlation of sector-specific economic drivers (e.g., impact of government infrastructure spending on construction sector)
- **Established the relationship between economic activity and the trucking sector, and built a model to forecast sector-specific trucking activity** over the next 5 years, by analyzing the historical flow of commodities in each state by mode of transportation (trucks, railroad, and waterways), inbound and outbound destination, and type of product moved.

Minnesota Has A Positive Economic Prognosis With Sharp Rebound From Recession And Solid Growth Projected Through 2017 Owing To The Diversity Of Its Economy

Gotham projected 3.8% real GDP growth in Minnesota's diverse core sectors, including medical device and machinery manufacturing, that also drive growth in the heavily service-weighted non-core sector economy. Projected medical device growth is due to increased demand from an aging population, post-recession demand growth for discretionary procedures, and demand growth for cardiovascular devices that are a core focus of Minnesota's leading medical device companies (e.g., Medtronic, St. Jude Medical, Boston Scientific). Minnesota's large manufacturing cluster is projected to grow after its 2009 decline, driven by a rebound in U.S. demand for industrial machinery manufactured in the state, such as metal working machinery (4.5% 2012-2017 CAGR) and packaging machinery (6.2% 2010-2015 CAGR) where Minnesota manufacturers have a strong presence. This economic growth is expected to drive 2.6% CAGR in state truck shipments.

2002-2017P State Nominal GDP By Core Sector ($B, % Of Total)
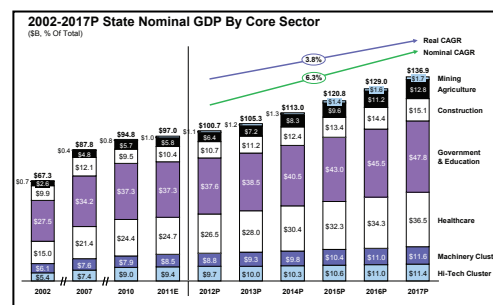
A Resurgence In U.S. Manufacturing Bodes Well For Wisconsin's Future

Gotham's analysis showed that large heavy-equipment manufacturers of construction, mining, and agricultural equipment will help drive growth through 2017. Construction machinery manufacturing has begun to rebound post-downturn and is expected to grow at 8.9% CAGR in the U.S. through 2017; crane and material handling equipment show a very similar trend with strong projected growth to 2015; and mining and agricultural equipment sales are expected to follow similar rebounds. The trucking industry's share of freight shipments in 2020 is projected to increase to 64%, driving down rail to 29%, driven by the abundance of frac sand resources in Western Wisconsin and the state's toll-free highway systems, offering an attractive possibility for cross-border shipping by truck. Together with the manufacturing cluster growth, these factors help support a 1.4% CAGR in truck shipments.

Explosion In Bakken Shale Activity Is Expected To Drive North Dakota's Trucking-Dependent Oil And Gas Economy

Gotham projected North Dakota's oil and gas cluster to continue its tremendous growth through 2017. Drilling activity in the Bakken Shale has risen significantly (323% increase in rig count from 2007-2011) due to the adoption of hydraulic fracturing, leading to a 74% increase from 2007-2011 in the number of Bakken wells producing oil. With each well expected to produce oil for approximately 29 years, North Dakota should see a stable future for oil production and a continued rise in direct oil-well-related employment. The trucking sector is poised to benefit from the oil boom (2% 2012-2017 CAGR) as the Bakken Shale does not have especially concentrated oil production areas – so much so that >70% of the oil is moved from well to terminals using trucks; trucks are also needed for hauling equipment, supplies, and byproducts (e.g., wastewater and frac sand).

The Outcome: Our client pursued its geographic expansion strategy with confidence as a result of Gotham's due diligence findings, which validated the macro-economic prospects of the 3 target expansion states.