

## Customer & Market Due Diligence Of Material Processing Equipment Manufacturer: Positioning The Buyer For A Fact-Based Bid

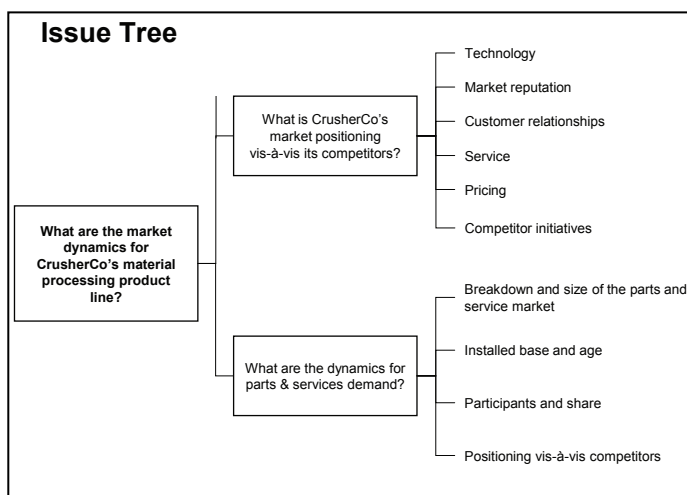
**The Challenge:** As part of its growth through acquisition strategy, ContainerCo, a leading manufacturer of material handling equipment, was aggressively targeting CrusherCo. A division of a larger company being spun off in an auction situation, CrusherCo was an \$80MM manufacturer of material processing equipment and replacement parts/service for two types of material streams. CrusherCo's end market was capital-equipment-spending driven, and the company had been doing very well for the past 3 years due to an uptick in the capital spending cycle and entry into a new type of capital equipment market. As it prepared for its bid (which was due in two weeks), ContainerCo was keen to understand how long this upswing would last and how CrusherCo was positioned competitively. To this end, ContainerCo asked Gotham to conduct market research and customer interviews to create a fact-base for understanding and valuing the CrusherCo business, based on both anticipated market dynamics (cyclicality, growth, etc.) over the next 3 years and CrusherCo's positioning and strengths vis-à-vis its competitors.

### The Partnership:

**Diligence Framework:** To ensure a robust and well-targeted end product within the 2-week pre-bid timeframe, Gotham first worked with the client due diligence team (private equity team and ContainerCo management) to develop a framework for diligence, including a list of key market issues and a customer survey questionnaire.

**Research And Modeling:** Gotham's approach in conducting customer and market diligence was multi-dimensional:

- Conduct secondary research to understand industry structure, market dynamics, and key players for the two material streams
- Interview a small sample of customers in each key segment to gain perspective on their assessment of projected demand over the next 3 years and CrusherCo's competitive positioning in the marketplace
- Conduct additional interviews of other industry participants (e.g., trade publications, industry associations, and industry experts) to supplement our findings
- Perform modeling to fill in information gaps.



Based on information posted in the deal data room and publicly available information from such sources as industry associations, trade publications, investment banking research, government entities, and the general business press, Gotham mapped the supply chain of material processed by CrusherCo's equipment and identified the sources of material and target end users for the processed material in order to develop a list of key industry contacts and the top 100 end-users for the two material streams.

The Gotham team then interviewed a mix of end-users (CEOs, VPs of Operations, and others), representing approximately one-half of the industry by volume of material processed. During these interviews, we captured customers' opinions of the direction of the material processing equipment market, their current and projected budget for capital expenditures related to material processing equipment, and their perception of CrusherCo and its processing equipment product line.

Finally, Gotham built several analytical models to fill in information gaps. For example, to develop a reasonable sense of installed capacity over the next three years, we used secondary research data, interview findings, and government projections to estimate the total volume of the two material streams and then modeled installed capacity by translating volume into equipment based on public announcements of new installations, SEC filings, and interviews.

**Input To Acquisition Strategy:** Although recent sales trends had resulted in impressive growth rates for CrusherCo's material processing equipment, Gotham concluded that the robust sales trend of the past 3 years was unlikely to continue beyond the next 12-18 months, as customers were close to fulfilling their capital spending need and the industry was reaching overcapacity. In addition, CrusherCo's claim to be a premier supplier of material processing equipment was not supported by the feedback received from customer interviews, as a number expressed concerns about customer service and product innovation.

**The Outcome:** Based on Gotham's market and customer due diligence findings, ContainerCo backed away from its aggressive pursuit of CrusherCo, especially at the valuation levels demanded by the investment bank handling the auction.