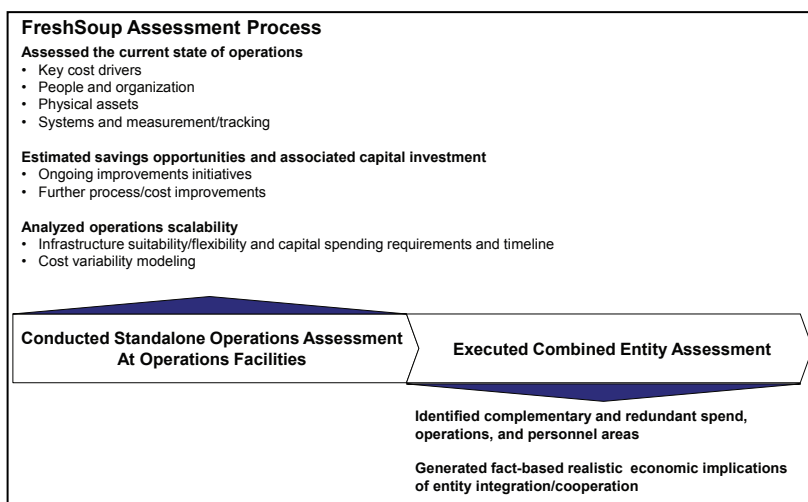


Operational Due Diligence Of Startup Fresh Soup Company: Current And Potential Operations Value Of Acquisition Candidate For National Fresh Foods Company

The Challenge: GreenVeg had built a \$500MM business by delivering fresh produce products across the nation. The board wanted to reposition the firm as a general fresh foods company by acquiring complementary businesses, and had identified a promising candidate in FreshSoup. On the plus side, FreshSoup had a superior tasting product and a unique market approach that was proving successful in capturing share abroad. However, 12 months after launching its product (in refrigerated deli cases), the product was still struggling to gain a foothold in the U.S. market, and FreshSoup needed a capital infusion to continue operations. GreenVeg asked us to perform operational due diligence to determine whether FreshSoup would meet the board's investment requirements.

The Process: Working closely with FreshSoup management at its manufacturing facility, our team conducted a rapid (3 week) but thorough operations diagnostic to understand both the current and potential operational picture. The diagnostic included:

- Interviews with personnel from the line up to senior executives
- Plant and facility walkthroughs and asset inspections
- Observation of normal working conditions and line start-up/shut down
- Business processes on a functional level
- Review of spend on a general ledger basis and documentation of cost variability and likely cost scaling



From the first week of findings from the diagnostic, we were able to focus the due diligence effort on assessing and modeling the following:

- Likely freight costs from combining logistics organizations and cold-chain
- Purchasing opportunities on both a volume and commodity basis
- Catastrophic infrastructure failure scenarios.

The Results:

- Identified standalone cost savings, including: standardization of recipe bases to increase scale of raw material purchases, cooking cycle-time reductions via precooking emulsification, and utility cost spend reductions through a switch to ammonia-based refrigeration
- Constructed a precise catastrophe/failure analysis (due to foreign sourcing of equipment)
- Built a capital expenditure time line in light of requirements to support growth and to adapt process to manufacture US-style soups
- Established forward costs by identifying cutoffs for purchasing scale cost reductions and by modeling labor requirements and associated costs against growth targets
- Assessed potential synergies, including soup revenue growth through shelf proximity and co-marketing with produce products; reduced soup logistics costs through use of existing large-scale produce cold-chain; reduced soup raw materials cost through use of GreenVeg suppliers and scale; and elimination of redundant overhead and SG&A expense through organizational consolidation.

The Outcome: Although at a top level, FreshSoup appeared very attractive to the GreenVeg board—automated, efficient manufacturing process, capable management team, high-quality product that complemented GreenVeg's primary business—our operational due diligence effort led to a decision not to pursue FreshSoup as an acquisition because GreenVeg's initial synergy cost savings proved overly optimistic, and the investment required to both purchase and make the business profitable was simply too high.