

Customer & Market Due Diligence Of Managed Waste Solutions Provider: Understanding Risk Posed By National Haulers

The Challenge: Our client, a large PE firm, was looking to invest in a managed waste solutions provider serving commercial customers through an ISP model. Our client was attracted to the target's sustained growth and leading market position but was concerned about the target's ability to maintain this growth and the disintermediation threat from large national haulers with their own landfills. As such, our client asked Gotham to conduct a 3-week customer & market due diligence to establish: (1) the target's positioning/risk vs. national waste haulers; (2) its competitive differentiation; (3) its margin stability and recession risk; and (4) size and expected growth of the managed waste solutions market.

Fact-based Disintermediation And Margin Risk Assessment: Gotham undertook a multipronged approach:

- Conducted 33 interviews with and 73 online surveys of customers to establish: the managed waste solutions overall value proposition; market, purchasing, and competitive dynamics, including customer and hauler pricing mechanisms; vendor selection criteria; the target's reputation and positioning; customer growth outlook and renewal risk; and cross-selling and service line expansion opportunities
- Developed a managed waste solutions competitive landscape by identifying players participating in the market and profiled key players
- Built a detailed end-market level model to determine the overall managed waste solutions market size and growth and the market share of key players
- Established the target's customer and landfill coverage by leveraging landfill location databases and analyzing the distances between 600,000+ landfill-target customer location combinations
- Analyzed company data to understand margin stability and margin profiles of the target's end-markets and key customers
- Built a recession model to understand potential impact of market decline on the target's revenue and gross margin.

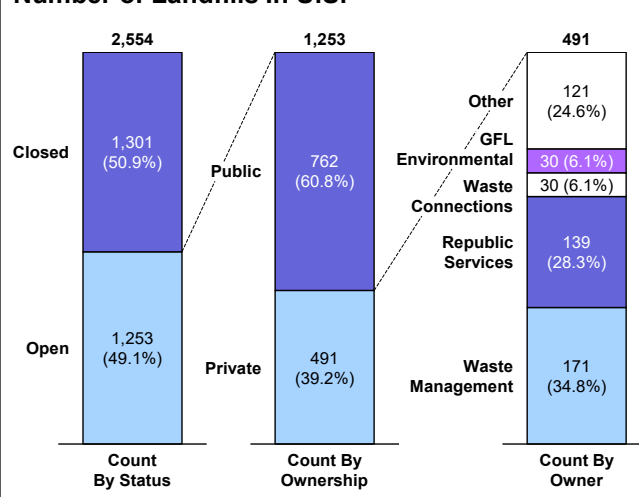
Managed Waste Solutions Market Growing At 4.3% CAGR Driven By Corporate ESG Goals, With Target One Of The Top 2 Players

Managed waste solutions providers offer waste services through a network of local haulers for multi-location clients, optimizing waste management frequency, and collecting data about client's waste disposal and recycling volumes. These tech-enabled waste management services provide customers with a full view of their waste generation and collection through easy-to-use online dashboards and employ technologies like waste container capacity sensors to determine the required frequency of waste hauling. These services are highly attractive to large, multi-location customers as they facilitate centralization of facility services procurement and support ESG goals of landfill diversion and emissions reduction and the associated reporting requirements. The target is one of the top 2 players in this attractive market and has a good reputation amongst a field of ~30 managed waste solutions providers and 100-200 small brokers, differentiating itself via its proprietary technology and vast network of independent haulers.

National Haulers Pose Limited Disintermediation Risk To Managed Waste Solutions Providers Due To Business Model And Cost Structure Constraints

National haulers (e.g., Waste Management, Republic Services) are high-margin businesses designed to collect and haul waste to landfills. These companies own a nationwide network of landfills that have higher margins than their hauling operations – as a consequence, they have no incentive to reduce the amount of waste and/or to encourage recycling. Gotham found that national haulers already subsidize waste collection pricing with preferential rates at their landfills and are constrained by their financial profile and antitrust concerns to undertake further price reductions. Therefore, there is little risk of haulers using their landfill advantage to disintermediate the target. Additionally, Gotham's landfill analysis indicated that the risk to the target's landfill use is limited, as 72% of the target's customer locations have more than 2 landfills available in a 50-mile radius, ensuring availability of landfill options.

Number of Landfills In U.S.



Target Exposed To Limited Margin And Recession Risk Due To Contractual Price Increase Provisions And The Essential Nature Of The Service

Gotham's analysis indicated that target has experienced steady or expanding margins, growing revenue throughout the pandemic. This is because most of the target's customer contracts include price increase provisions tied to CPIU, with additional price flexibility for recycling services, and because the target aligns the terms of its customer and local hauler contracts to limit its exposure. Waste services also fair well during a recession with demand remaining steady (as exemplified by only a 2.1% decline in 2001 and a 1.0% in 2008), with customers maintaining their dumpster size and pickup frequency. Gotham's recession model indicated that even during a severe recession, the target would experience at most a 5.1% decline in revenue.

The Outcome: Gotham's fact-based approach gave our client a detailed view of: the overall managed waste solutions market; the target's reputation and competitive positioning; and the disintermediation, margin stability, and recession risks. This fact base enabled our client to pursue the target aggressively.