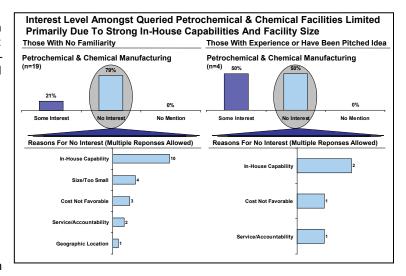
## Understanding Market Dynamics/Size As Key Input To BigFund's Round 2 Bid Decision: Customer And Market Due Diligence At EnergyCo

The Challenge: BigFund, with \$9 billion under management, was facing the second round of bidding on the targeted acquisition of EnergyCo, a \$120MM outsourced service provider to the energy industry. EnergyCo had a unique business model to service a niche market – 5 categories of equipment in the Petroleum Refining, Chemicals, and Energy Exploration markets – with plans to move into 4 additional verticals (Steel, Paper, Utilities, and Mining). BigFund needed more clarity in order to validate its investment thesis before submitting its second round bid. Specifically, BigFund wanted to know: (1) how EnergyCo's customers and potential customers made their purchasing decisions; (2) how existing customers viewed EnergyCo's services; (3) whether customers were receptive to a bundled product and service offering; and (4) the overall market efficacy of EnergyCo's unique business model. To gain this knowledge, BigFund asked Gotham to perform a 2-week customer and market due diligence study (to include 20–30 interviews conducted in each of EnergyCo's three main industrial verticals) and understand the relevant market dynamics.

## The Partnership:

Analysis: To ensure a robust effort within the very short time remaining before the submission of the Round 2 bids, Gotham formed two teams: the first was responsible for conducting and synthesizing findings from the many interviews; and the second focused on secondary research.

The interview team first compiled a list of key contacts by industry and developed a "buyers" insight of the overall equipment and service market for EnergyCo by researching the specific requirements and regulations of EnergyCo's customers. From this information, the Gotham team then highlighted the key issues that needed to be addressed in the interviews and worked with BigFund to create a comprehensive questionnaire. Over 90 interviews were conducted in a 5-day time frame, with the collected information compiled in a central database and reviewed daily in order



to synthesize the results and further refine the key issues. After completing the interviews, the Gotham team performed a statistical analysis of the results and synthesized key findings.

The research team faced a challenge in that there was no readily available market information because EnergyCo's combined product and service offering was both unique and new. To overcome this information deficit, the team developed qualitative understanding of the requirements for EnergyCo's products and services, based on information from regulatory agencies, equipment manufacturers, and trade and industry associations. The Gotham team then established the demographics of the three main industry verticals and emerging markets and the likely usage of equipment per facility leveraging information from the EnergyCo data room and relevant regulatory agencies.

Based on this secondary research and key interview data, Gotham built a model to determine the installed base of equipment. Once determining the service requirements for the different types of equipment, the Gotham team was able to quantify the market size for EnergyCo equipment and service. Finally, the team researched EnergyCo's competitors, who include industrial equipment manufacturers, distributors, and service companies, and then conducted a SWOT analysis of EnergyCo and its key competitors.

<u>Findings</u>: EnergyCo's unique business model was validated and it was determined that there was a substantial addressable market of ~\$3.5B, with a core market of \$2.0B. However, EnergyCo faced a selling challenge due to many competitors in the marketplace offering fragmented products and services that competed with EnergyCo's offering.

**The Outcome:** BigFund submitted a successful bid for EnergyCo and acquired the company with the confidence of knowing EnergyCo's market profile, specific position, and customer demands. By the end of Big Fund's first ownership year, EnergyCo had grown its top line by 50% through a combination of organic growth and small tuck-in acquisitions.