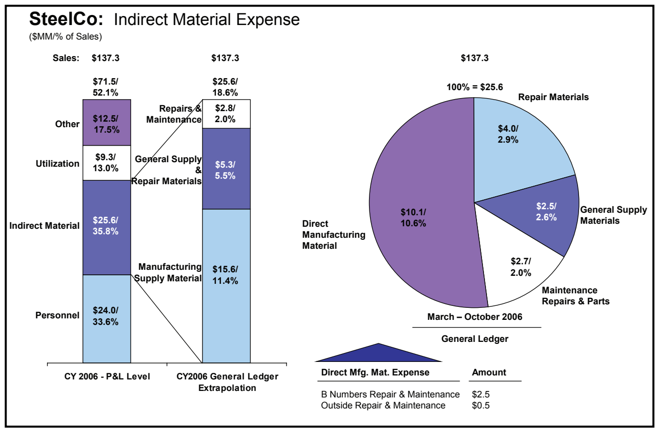
Operational Due Diligence Of Fabricated Metal Products Holding Company: Properly Valuing Diverse Manufacturing Operations

The Challenge: A fabricated metal products holding company with >2,000 employees, was under consideration to be acquired by a mid-market PE firm. MetalCo comprised ive separate fabricated meta products businesses engaged in forging, casting, and stamping, with varying cost structures and diverse manufacturing operations. The PE firm asked Gotham to conduct a rapid operational due diligence of MetalCo as the prospective buyer only had a few weeks of exclusivity.

The Partnership:

Approach: Operating under a tight deadline, the Gotham team spent the first week leveraging all available information and data to build profiles of each of the five businesses, including an overview of the business, products, customers, and operations, as well as financial and cost structure. Based on these initial profiles and Gotham's industry and benchmark knowledge, the team identified potential issues/risks and developed key hypothesized opportunities. Gotham reviewed the profiles with the deal team to focus the due diligence efforts. Gotham then visited three of MetalCo's eight manufacturing facilities to observe operations first-hand, interview management, and collect additional data in order to refine initial hypotheses on opportunities and risks. Our initial findings enabled the deal team to sign a LOI with he target, who then set up a data room with more detailed information. We then leveraged this additional data to develop a more robust cost profile and pin down the scope of opportunities.



Findings: Of the five businesses, the large steel casting business presented the largest opportunity. The casting operations included a massive 4MM sq. ft. facility producing very large castings (up to 60,000 lbs). Gotham's assessment indicated a $7-15MM total cost reduction opportunity from:

- Optimizing floor management – reduce the number of supervisors (the existing 10:1 labor-supervisor ratio required 74 supervisors); improve casting quality to reduce finishing labor (~750 DL headcount); implement labor productivity measurement and tracking; and reduce unplanned maintenance downtime
- Reducing spend on indirect material ($30MM spend or 22% of sales) – re-source/re-bid the large spend items and better track and manage usage
- Rationalizing overhead head count.

While the greatest cost savings potential was at he large steel casting division, Gotham's due diligence uncovered opportunities at the other businesses as well, including:

- Better production scheduling, planning, and complexity management at the large stamping business, to reduce labor cost by $1-2MM to and improve inventory turns to achieve a $2-3MM inventory reduction
- Greater labor and overhead efficiencies at the small stamping business from reducing downtime and improving production scheduling ($1-2MM in savings) and possibly consolidating two existing manufacturing facilities ($2+MM savings)
- Enhanced capacity utilization at the large forging business from upgrading a forging press from 2,000 tons to 2,500 tons to free up capacity of the 5,000 ton press and, thus, reduce backlog (15 months of production).

The Outcome: Gotham's due diligence findings helped the PE firm accurately value he target and reach an agreement with the seller. Due to a catastrophic failure in one of the target's presses, deal closure was delayed almost a year. After closing the deal, the PE firm asked Gotham to help in capture the identified cost saving opportunities at the large casting business.

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