

## Exit Preparation/Positioning Of Upholstered Furniture Manufacturer: Establishing Growth Opportunities And Differentiated Competitive Positioning

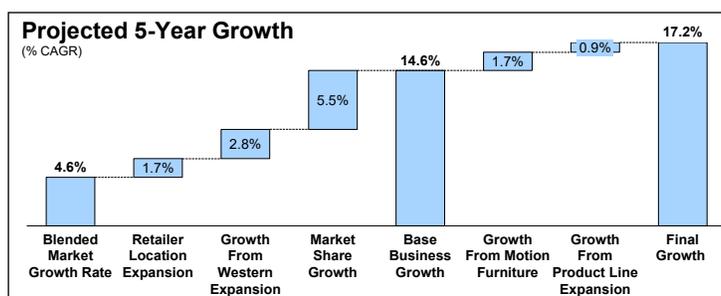
**The Challenge:** Our client, a middle-market PE firm, was preparing for the sale of one of its portfolio companies, an upholstered stationary furniture manufacturer. The company had grown rapidly in the last few years, winning market share with its market-leading designs and differentiated supply chain. To continue this rapid growth, the company was planning to add a manufacturing facility in the Western U.S. and motion furniture to its product line. Our PE client asked us to craft an analytically robust growth story that makes a compelling case for the company's unique value proposition and growth trajectory. Gotham's sell-side market study effort had four objectives: 1) establish the company's competitive positioning; 2) determine the company's Western expansion opportunity; 3) ascertain the company's motion furniture cross-selling opportunity; and 4) assess key market trends.

**Fact-based Market Positioning and Growth Assessment:** To build the growth story, Gotham:

- Interviewed furniture retailers and distributors in order to gain insights into the company's value proposition, differentiated positioning, brand reputation, market share expansion opportunities, market outlook, and recession impact
- Developed a bottom-up market size and growth model leveraging government data, demographic trends, household furniture spend, and macro-economic indicators
- Developed a comprehensive view of the competitive landscape across the company's current and expansion markets, identifying key segments and competitors, along with their value propositions, market shares, and target demographics
- Outlined key market trends, demand drivers, consumer preferences, covid impact, and recession risk
- Built a retailer-by-retailer opportunity model to establish the company's growth opportunity by analyzing store coverage, current and future slots, sales per slot, retailer's footprint expansion plans, and internal benchmarks.

### Company Gaining Market Share Driven By Its Market-leading Designs And Differentiated Supply Chain

To address potential buyers' concern that company's growth was driven by the covid bump, Gotham established that the company gained significant market share post-covid by bringing its high-end design to mass market. Customer feedback revealed the company's unmatched ability to offer a premium showroom look through superior fabrics, proprietary weaves, and eye-catching custom pillows, at affordable prices. This design advantage was augmented by a differentiated supply chain that combined the benefits of domestic manufacturing and offshore sourcing. Rapid turnaround of new designs based on latest trends along with strong relationships with multiple Asian fabric mills enabled proprietary design creation. Cut-and-sew operations in Asia and Mexico enabled low-cost production while domestic assembly plants enabled timely delivery. Retail customers spoke highly of the company's ability to deliver cutting-edge designs and high-quality products fostering longstanding customer relationships. The company had a leading NPS score and highly rated performance on key purchase criteria such as price, quality, and design.



### New Western Facility Allows The Company To Offer Its Superior Products At A Competitive Price In Western States

The company planned to open a new manufacturing facility in the Western U.S. and expand its presence in this \$2.3B addressable geographic market segment that was poised to grow at 5.7% CAGR. Western U.S. manufacturing presence was currently limited to a few vertically integrated retailers offering standardized designs or smaller manufacturers with high prices, leading to a high share of imports in the West. The company had a distinct design and price advantage but was limited by the high cost of shipping furniture from the Eastern U.S. The planned Western facility would enable the company to offer products at lower shipping costs, making it more competitive. The Western retail landscape comprised 12 national, 13 regional, and ~2,000 independent retailers, accounting for ~50%, ~40%, and ~10% of the market, respectively. We established that the company was already present in many of these national retailers and had active interest from several regional players. Gotham established and quantified sales opportunity by retailer to build buyer confidence in the magnitude of potential growth from the western expansion.

### Opportunity To Leverage Design And Logistics Synergies To Expand Presence In The Motion Furniture Market

The \$4.1B motion furniture market, comprising 44% of the upholstered furniture market, was gaining share due to growing acceptance of high-comfort furniture and was projected to grow at a 6.1% CAGR over the next 5 years. With 300+ furniture customers, the company had a substantial opportunity to cross-sell motion furniture. Existing players focused more on features and comfort over design, offering bulky and uninspiring products that struggled to appeal to design-conscious consumers. By bringing its distinct eye for design, the company demonstrated high potential to translate its success in stationary furniture to the motion category with over 70% of its customers expressing interest in purchasing motion furniture from the company were it to enter the category. National retailers with scale had their own sourcing presence in Asia, but regional and independent retailers often had to rely on ordering a containerload of same design, limiting their product selection and increasing their inventory costs. Gotham identified a 50% shipping cost reduction for the company's stationary customers by consolidating their stationary and motion purchases, with 67% of retailers interviewed citing logistical synergies as a driver to purchase motion furniture from the company.

**The Outcome:** Gotham built a robust market sizing model to provide a clear picture of the market in light of covid-driven fluctuations and demonstrated the company's differentiated competitive positioning. We also built the company's growth stack quantifying underlying market growth, growth from retailer location expansion, market share growth, western expansion growth, and product line expansion growth. This analytically robust and compelling growth story report was used by the company's management team and investment bankers to attractively position the company to prospective buyers.