

Customer & Market And Operation Due Diligence Of Global Pressurized Dispensing Packaging Components Manufacturer: Validating Market Growth Outlook And Cost Savings From Consolidating Operations To Regional Hubs

The Challenge: One of our operationally focused PE clients was looking to invest in a global manufacturer of pressurized dispensing packaging components. Our client was attracted by the target's stable underlying markets in the U.S. and Europe and rapid FMCG growth in emerging markets, but was concerned about growth projections in the sell-side market study report that were significantly above GDP. Furthermore, the target's sell-side operations assessment identified significant EBITDA savings from consolidating manufacturing from 18 facilities in 15 countries to 4 regional production hubs. Our client asked us to conduct a 2-week due diligence to: (1) assess operational initiatives to validate feasibility and savings and to establish CapEx and one-time costs; and (2) form an independent view into the market growth outlook.

Rapid Validation of Operational Savings and Market Growth Outlook: To quickly validate operational opportunities, Gotham supplemented limited information in the data room with interviews and Gotham's experience and knowledge base. To this end, we:

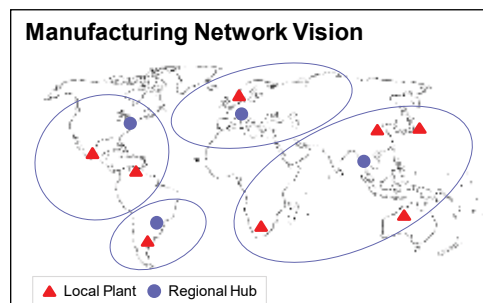
- Interviewed the sell-side consulting firm to review identified operational initiatives, including underlying rationale, options considered, methodology and assumptions behind savings estimates, and feasibility/requirements for capturing the opportunity
- Discussed operational initiatives with the new COO to understand: feasibility and any changes made to originally identified initiatives, any further opportunities identified, current status, and implementation plan and timing
- Built a robust labor cost picture by plant/function and role by reconciling trial balance/general ledger data with employee census data; analyzed labor productivity, span of controls, wage differentials, and roles across plants
- Established true capacity picture of target's metal stamping, injection molding, extrusion, and assembly operations across regions/plants by identifying throughput enhancement opportunities under different scenarios (e.g., OEE gains through micro-stop reduction, level-loading, shift structure changes, machine upgrades)
- Modeled consolidation savings under various scenarios that accounted for: material cost differences across regions; labor cost reduction opportunities from efficiency gains and wage differentials; overhead cost reduction through elimination of indirect labor, duplicate building and operating expenses, etc.; and freight costs based on the weight characteristics of every product.

To pin down market growth outlook, Gotham:

- Conducted extensive research and interviews with industry participants to establish key product and packaging trends and target's competitive positioning vs. other global players
- Built an independent bottom-up market growth model by end-market (personal care, home care, industrial, food, medical, etc.) and by region (U.S., Europe, Latin America, and Asia)
- Established target's market growth based on its business mix by end-market and region.

~\$15MM in Operational Improvement Opportunities Available, 50% Above Sell-side Estimate

Gotham's revamped plan for each operational initiative based on our assessment of feasibility, changes to the original plan, and new opportunities indicated the total annual cost reduction opportunity to be 50% higher than the sell-side estimate. For injection molding, the original plan was to consolidate 5 locations into a single global hub. To reduce risks, Gotham developed a dual-hub option (U.S. and Asia) that would generate similar labor savings as the original single-hub option, and the new COO concurred. We also established that the sell-side estimate did not account for the associated freight costs and identified additional savings opportunities from cavitation efficiency improvements. In South America, the original plan called for only partial consolidation. However, we ascertained that the plant can be fully consolidated, generating \$2.4MM in additional savings. Finally, Gotham established \$2-3MM in further cost savings opportunities by revamping the layout of one of the European plants.



\$12-13MM in CapEx/One-time Costs Required to Capture Operational Opportunities

Gotham established ~\$6MM in one-time costs by developing a bottom-up assessment of: asset relocation costs (e.g., decommissioning, packaging, transportation, reinstallation/recommissioning, liquidation); severance cost taking into account local labor laws/contracts; and relocation/project management labor costs. We also established \$6-7MM CapEx requirements associated with re-layout of plants, infrastructure upgrades, machine upgrades/new equipment, etc.

Market Expected to Grow at 5.5% CAGR, Lower than 7-8% CAGR Sell-side Estimate

Gotham projected a 2.8% CAGR unit volume growth: 1.7% in base market usage growth from population growth, growing beauty & personal care market, and growing consumer spending power in emerging markets; and 1.1% in per-capita usage growth from continued shift to aerosol packaging in sunscreens and deodorant and innovation in aerosol packaging. We established 2.7% CAGR growth from pricing: 0.4% in real pricing growth from higher growth rate in premium categories of beauty & personal care market and CPG brands focused on customized actuators; and 2.3% in inflationary pricing growth. While sell-side assumptions were directionally correct, Gotham established that real pricing and per-capita usage were aggressive, especially in mature markets such as Europe, and inflationary growth projections did not account for currency exchange rate movements.

The Outcome: Gotham's rapid due diligence effort provided clarity on the feasibility of and savings achievable through consolidation into regional hubs and market growth outlook. Our client was excited about the opportunity to invest in a leading global company and pursued the target with a revised bid taking into account lower market growth and higher operational savings opportunity.