

Exit Preparation/Positioning Of Hispanic Foods Manufacturer: Establishing Company's 5-year Growth Stack

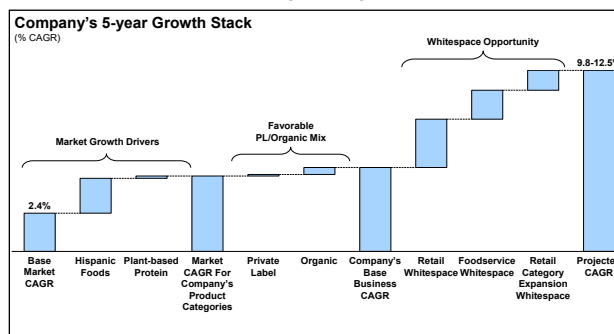
The Challenge: Our client, a full-line supplier of high-quality Mexican and Hispanic inspired foods across multiple categories, was preparing for a successful exit, while at the same time, its product categories were benefiting from many favorable macro trends. Our client asked Gotham to craft a robust and compelling story for potential buyers about the company's markets and growth opportunities, with the following objectives: (1) establish market size and growth rate of existing and potential expansion product categories by channel; (2) establish impact of macro trends and millennial eating habits favorable to the company's growth; and (3) establish the company's whitespace opportunities.

Data-driven Macro Trend & Growth Opportunity Analysis: Gotham conducted a 4-week exit preparation effort taking a multipronged approach:

- Established key macro trends impacting company's product categories – rise of Hispanic, Private Label, Organic, and Plant-based foods – leveraging Gotham's proprietary database, industry reports, primary research, and the company's sales data
- Built a product category retail market sizing model:
 - Established the base growth of product categories leveraging Nielsen data
 - Modeled the impact of Hispanic population change, demographic shift, grocery purchasing habits, and preference for Hispanic food categories on the company's retail growth
 - Established the impact of non-Hispanic consumer increasing preferences for Hispanic, Private Label, Organic foods, and Plant-based Protein on the company's growth
 - Established growth of the company's particular product mix over category base growth
- Developed a database of Hispanic and mainstream restaurant chains, including number of locations, menu, sales, ingredient use, and meal portions, and built a bottom-up market sizing model to establish foodservice market size and growth rates by segment, validating our model results with the company's sales data
- Developed the company's whitespace opportunity model for foodservice and retail by modeling the company's wallet share in each product category, in each major and Hispanic grocery, and in each major foodservice account.

Due To Favorable Macro Trends, Company Expected To Grow At 270bps Above Retail Base Growth

The food retail market is undergoing multiple trends favorable to the company's product categories. More specifically, the company is playing in the Hispanic grocery segment, which is growing at 4.0% CAGR driven by Hispanic population growth (2.1% CAGR). Many Hispanics are entering their prime grocery buying age and are spending \$10 more per grocery visit than the total population. The Hispanic grocery segment is also benefitting from non-Hispanic population's growing preference for Hispanic food. The company is also benefitting from the growing Plant-based Protein market, driven by ~40% of the U.S. population identifying as vegan, vegetarian, or flexitarian and contributing an additional 0.1% CAGR to the company's growth. Additionally, with Millennials becoming the largest consumer segment, there has been growing demand for Organic and "Better For You" products as 55% of Millennials view "Organic" as important when purchasing food vs. just 38% of Baby Boomers. This will contribute an additional 0.9% CAGR to the company's growth. Beyond growth in product categories, the company is exposed to the Private Label grocery market which has an 18.5% market share and is growing at 2.6% CAGR – this will contribute an additional 0.2% CAGR to the company's growth.



Hispanic Food Is Gaining Popularity Across All Foodservice Segments

The foodservice market is growing at 3.3%, driven by consumers choosing to eat away from home more often. Unlike previous generations, for Millennials, "dining out" accounts for the highest spend of their food budgets. The company is expected to grow at 300bps above the overall market. It is benefiting from a growing preference for Hispanic foods which is driving an increase in the number of Hispanic/Mexican cuisine restaurants, with the number of locations growing at 5.1% CAGR. As a consequence, Mexican cuisine edged out Pizzerias for the second most common U.S. restaurant type. Hispanic/Mexican menu items are also increasing in mainstream restaurants, C-stores, and institutional foodservice settings and "handable" menu items, like tacos and breakfast burritos, are becoming especially popular. More broadly, the foodservice segment is undergoing a transformation to adapt to consumer demands for "Better For You" ingredients, driving additional growth in the company's product categories.

Company Able To Capture Additional Growth By Taking Advantage Of Favorable Whitespace Opportunities

Gotham quantified the company's whitespace opportunity by chain and by category. Due to recent acquisitions, the company has different categories of strength in different segments. Based on the company's wallet share, Gotham found that although at its top retail accounts, the company has high wallet share penetration in one product category; in other categories, penetration was low. As such, there is an opportunity to leverage the company's existing presence in major grocery chains to increase its wallet share and capture up to 3.5% CAGR in additional growth. In foodservice, the company's penetration beyond one major category is low, providing an opportunity to expand in the other categories at the existing chain accounts. Additionally, Gotham identified an opportunity to expand into three adjacent product categories to capture up to an additional 1.6% CAGR growth.

The Outcome: Gotham's report gave our client's bankers and management team a quantified fact-based view of the company's growth opportunities leading to a highly contested auction with 10+ groups competing. Gotham fielded the diligence calls from all bidders, walking them through our robust analysis supporting the company's growth stack.