

**Project Type:**

Commercial Due Diligence

Sector: Home Textiles /
Manufacturing

Company Size: \$50M +

Company Position:
Market Challenger

Client Level:
Partner - Private Equity

The Critical Decision:

Should client complete acquisition of target at agreed to price based on an aggressive growth forecast prepared by seller's management team?

The Answer:

Target will grow substantially over a five year investment horizon but will not achieve management's aggressive sales forecast and the purchase price should be reduced accordingly

The Discussion:

The target company was an emerging player in a relatively new and growing segment of the US home textiles market. Over the past five years, the firm had captured a disproportionate share of market growth along with competitive share from larger, more established market leaders resulting in a doubling of sales in each of these years. This high level of performance had been driven by the introduction of multiple, well received product innovations, a high level of in-store promotional support for retail customers and value based pricing. Target management forecast this growth would continue for five more years.

Through a series of in-depth qualitative interviews with retailer customers, prospects and industry experts Lumeric determined that segment growth would peak within two years, competitors were mirroring the target's innovations and the window for further technology development was narrowing which would significantly reduce target's upside potential. However, Lumeric also determined that target would still grow measurably via market share capture as retail customers viewed the marketing support they received from the target as superior to competitors leading to greater sales success for their firms. 
