Thaler Machine Holdings, LLC and Subsidiary (Thaler Machine Company, Inc.)

CCC *1 year PD* **9.02% to 14.87%**

- Revenue (-31% since FY-21) and EBITDA margins (-14.4 points since FY-21 to 3.8% in FY-23) declined sharply with a loss of -$4.6mn, and a high leverage of 14.75 in FY-23.
- Substantial backlog, sales funnel and follow-on contracts exceeding $350mn through 2027. Backlog alone will at least triple annual revenue, and substantially improve performance.

Strengths

- **Advanced Manufacturing Capabilities & Risk Mgmt:** Thaler specializes in ultra-precision machining and high-tech processes like 3D metal printing and electron beam welding, positioning them as a crucial supplier for the aerospace and defense industries. Their Risk Management is sophisticated, with customers paying 100% of material costs upfront, limiting w/c-requirements.
- **Strong Industry Demand:** They operate in relatively inelastic markets like defense and aerospace, ensuring consistent demand despite broader economic fluctuations. Backlog through 2027 ($110.7mn), and nearly $70mn in follow-on contracts. In addition they have almost $200mn in their sales pipeline, of which about half is in a negotiations and final stage prior to contracting.
- **Significant Asset Base and PE-backing:** With $16.6mn in PP&E and an overall asset base of $48.7mn in FY-23, the company is well-capitalized for future operational needs. Cognitive is very influential and actively driving growth, including hiring the right talent, and providing the funds required.

Challenges

- **High Leverage:** Net Debt/EBITDA is extremely high at 14.75 vs the peer median of -0.12, indicating significant financial risk and a burden on cash flow.
- **Weak Liquidity:** A current and quick ratio of 1.56/0.61 in FY-23 are well below peer medians (2.96 and 1.57, respectively), signaling short-term financial strain.
- **Declining Profitability:** EBITDA margin fell from 18.2% in FY-21 to just 3.8% in FY-23, with Net Income erroding from +$680k to $-4.6mn in FY-23. Project X tied up resources, in addition to delays in defense budget (caused a 12-month delay).

Company Overview

Headquarters	Springboro, OH
Type	Private (PE)
Employees	100-200
Year Founded	1952
Website	https://www.thalermachine.com/
Business	Precision components for aerospace and defense industries.
Revenues	$19.9M

- **Company Overview:** Manufacturer of complex, mission and flight-critical components to the missile defense and aerospace engine markets.
- **Product:** Offers high-precision missile actuator components, aircraft engine parts, and guidance system elements using cutting-edge processes like 3D metal printing.
- **Customers:** Serves leading defense and aerospace OEMs, including Lockheed Martin, Raytheon, and GD, which demand strict quality and performance standards.
- **Ownership:** Acquired in 3/2020 by Cognitive Capital Partners ("CCP") and PNC Mezzanine Capital, who provide strategic direction and financial backing. CCP was founded in 2006, had 9 acquisitions to date, no institutional investors.
- **Debt Structure:** Vast majority of Mezzanine debt is due on 2/26 to PNC ($12.1mn, on accrual, non-amortizing i/o loan). The balance of debt is due in 2027. All loans (excluding leases) were ear-marked with a note that the maturity dates would be up to review.
- **Production Issues:** They stated execution as a primary risk, endangering them to deliver product and meet orders. To address that, they hired a new CEO, CFO, VP of Ops and BD, added new equipment through mid-2024 to achieve order volumes.
- **PROFORMA:** Based on the YTD-financials through 9/2024 supplemented by a 3-month projection by the tenant, the respective rating is improving significantly to at least 5.5. Taking into consideration the 2025 proforma, after the SLB took place, (50% of net proceeds to remain in cash/w/c, the balance to reduce debt), the rating is projected to reach at least 6.0. The main driver behind these steep improvements is the substantial increase in revenue, which addresses financial concerns across the board - Liquidity, Leverage, and Profitability **--> Separate analysis.**

Financial Statement Highlights

$ '000s	(C) Dec-21 T12	(B) Dec-22 T12	(A) Dec-23 T12	Change (C) to (B)	Change (B) to (A)
Income Statement					
Total Revenue	29,139	25,358	19,930		-21.4%
Gross Profit	6,809	5,382	2,010		-62.6%
Adjusted EBITDA	5,309	4,326	750		-82.7%
Gross Profit Margin	23.4%	21.2%	10.1%		(1114) bps
Net Income	680	(720)	(4,557)		533.4%
Balance Sheet					
Cash And Cash Equivalents	951	3,986	7,039		76.6%
Total Current Assets	9,817	12,750	21,957		72.2%
Total Assets	40,474	40,913	48,653		18.9%
Total Current Liabilities	3,049	4,980	14,083		182.8%
Total Debt	18,367	17,595	18,100		2.9%
Total Equity	19,058	18,338	17,781		-3.0%
Key Ratios					
Current Ratio	3.22	2.56	1.56		-39.1%
Quick Ratio	1.16	1.37	0.61		-55.6%
Net Debt / EBITDA	3.28	3.15	14.75		368.9%
Debt to Assets	45.4%	43.0%	37.2%		(580) bps
EBITDA Margin	18.2%	17.1%	3.8%		(1330) bps
ROCE %	6.5%	3.0%	-7.8%		(1079) bps

- Total revenue decreased from $29.1mn in FY-21 to $19.9mn in FY-23, a 31.6% drop, reflecting operational challenges, and a shift in focus towards "Project X".
- Net Income turned to a Loss in FY-22 (-$720k), from a Profit of $680k in FY-21, and a Loss of -$4.6mn in FY-23 mainly due to operating issues - excluding deferred revenue.
- Cash equivalents increased from $0.95mn in FY-21 to $7.0mn in FY-23 (Equity Cure).

Scorecard Summary

Financial vs Business Risk Weighting Factors

Ownership	Private (PE)
Company Stage	Transformation
Financials	Complete

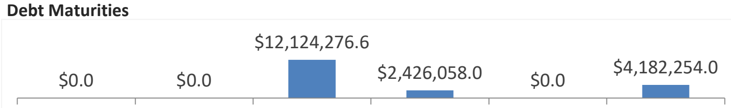
	Weight	Score	Dimension	Weight	Score
Financial	30%	2.0	Liquidity	40%	2.3
			Leverage	30%	0.4
			Profitability	30%	0.7
Business	70%	6.4	Industry Risk	15%	5.5
			Competitive Position	35%	6.8
			Mgmt / Governance	15%	7.0
			Sponsor / Parent	35%	6.2
Modifiers		-0.9	Revenue Segment		(0.7)
			Trend Analysis		(0.19)
			Fixed Cost Coverage Risk		(1.00)

Financial Benchmarking & Debt Maturity Profile

# of Benchmarks: 26		Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	2.96	1.56	26%
	Quick Ratio	1.57	0.61	14%
Leverage	Net Debt / EBITDA	(0.12)	14.75	0%
	Debt to Assets	15.1%	37.2%	22%
Profitability	EBITDA Margin	13.7%	3.8%	14%
	ROCE %	16.2%	-7.8%	5%
	Revenue	$25M	$20M	

Industry Benchmarks - Primary: Broadcasting

Debt Maturities



Business Risk Highlights

- **Industry:** The aerospace and defense sectors are subject to geopolitical tensions and government budget decisions, affecting revenue predictability. Functional obsolesence in times of an increased focus on drones, and cost-efficiencies per hit, were discussed. Project X is the future of air-to-air combat missiles, which is of strategic importance to the US, and global stock in Excalibur missiles are depleted. The U.S. aerospace and defense (A&D) industry had an estimated market size of ~$500bn (2024), projected to reach ~$650bn by 2029, reflecting CAGR)of 5.8%
- **Competitive Position:** Advanced manufacturing capabilities and strong client relationships set the company apart but expose it to risks if clients switch suppliers or reduce demand. Inelastic demand, high level of barrier to market entry, steeply improving operational efficiency to meet and exceed peers (see proforma).
- **Management:** The acquisition by Cognitive Capital Partners and PNC Mezzanine Capital may influence financial and strategic decisions, especially in addressing high leverage. To address operational inefficiencies they hired a new CEO, new CFO, and two new VPs in BD and Operations supplemented by more investments into machinery to increase throughput as well as improving in-house growth capabilities/expertise.