Seal South, Inc.

B *1 year PD* **1.89% to 3.18%**

- A strong 12.5% EBITDA margin and no debt curbs the credit risk. The drop in cash (-61%) reflects an investment in a new program - reimbursable the following year (time lag).
- Geographic focus limits options to expand fast, despite high demand. High regulatory dependency, countered by a strong cost discipline and risk awareness (consultant & lobbyist).

Strengths

- **Leverage-Free Financial Structure:** Seal South, Inc. operates with 0% debt-to-assets and a net debt/EBITDA of (0.10), providing exceptional financial flexibility and minimal financial near-term default risk.
- **Liquidity & demand:** The company's current and quick ratios of 8.70 (compared to a peer median of 1.47) indicate robust liquidity, allowing it to cover short-term obligations without difficulty. The entity's USP is in their approach to customize programs to their students environment and needs. They have a waiting list and are not concerned about competition.
- **Profitability Efficiency:** The EBITDA margin of 12.5% and ROCE of 47.7% outperform peer medians (10.2% and 12.4%, respectively), highlighting the company's strong operational efficiency and effective capital utilization.

Challenges

- **Cash Flow Decline:** Despite strong operating cash flow ($842k in FY-23), cash and cash equivalents dropped from $232k to $90k, which was a result from an investment into a new program, we've been told (call on 10/01/2024)
- **Geographic Limitation:** The company appears to focus on a local to regional market, limiting potential growth opportunities and risk diversification from a geographic standpoint.
- **Funding & regulation:** The entity relies entirely on reimbursements of expenses (T-1) from the state. This makes it a bit more complicated to budget, but also navigate potential regulatory changes. To counter the risk, the entity works with a Consultant for quarterly expense reviews, and a Lobbyist.

Scorecard Summary

Financial vs Business Risk Weighting Factors

Ownership	Private (Non-PE)
Company Stage	Stabilized
Financials	Complete

	Weight	Score	Dimension	Weight	Score
Financial	75%	8.5	Liquidity	45%	*10.0*
			Leverage	28%	*5.8*
			Profitability	28%	*5.2*
Business	25%	7.2	Industry Risk	20%	*5.5*
			Competitive Position	50%	*7.2*
			Mgmt / Governance	30%	*8.3*
			Sponsor / Parent		
Modifiers		-3.3	Revenue Segment		*(3.0)*
			Trend Analysis		*0.25*
			Financial Flexibility		*0.50*

Company Overview

Headquarters	Romeoville, IL
Type	Private (Non-PE)
Employees	~100
Year Founded	2007
Website	https://www.seal-il.com
Business	Provides specialized educational and therapeutic services.
Revenues	$7.3M

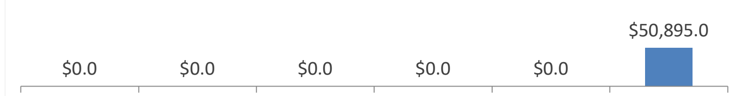
- **Company Overview:** Seal South, Inc. is a private, specialized provider of educational and therapeutic services aimed at fostering academic and emotional development in students with special needs. The Seal South is a standalone entity, separate from the other two locations in Lombard, and Elgin.
- **Product:** The company offers academic programs, clinical therapy services, and community enrichment activities. These include tailored education plans, mental health counseling, and expressive therapy, adapted to the socioeconomic makeup and need of their students, helping them to achieve both academic success and personal growth.
- **Customers:** The primary customer base consists of students with special needs and their families, who seek tailored educational and therapeutic services.
- **Ownership:** Seal South is owned by Karen Larson, after one of the original founders died a few years back, and she bought out her remaining partner, who subsequently retired. Although SEAL has a total of 3 facilities, Seal South operates as an entirely independent stand-alone entity - no parent, no holding.
- **Debt Structure:** N/A - the entity does not have any debt.
- **SLB-Proforma:** 50% of net proceeds (~$2.75mn) shall be reinvested in new programs, the rest to be held in cash. Under the proforma expenses are going to increase by $3.6mn ($2.75mn + $850k in annual rent), in addition to the higher cash position. Given revenues would not rise in year-1, the rating would drop to a 3.5/4.0. Yet, if the additional program expenses would be reimbursed the following year (worst case scenario, usually it's more than the expenses only), the rating would increase to a 6.0 on a "normalized" proforma basis.
- **See Events Subsequent, additional writeup based on further feedback from SEAL.**

Financial Benchmarking & Debt Maturity Profile

# of Benchmarks:	*33*	Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	1.02	8.70	***100%***
	Quick Ratio	0.98	8.70	***100%***
Leverage	Net Debt / EBITDA	0.92	(0.10)	*70%*
	Debt to Assets	10.6%	0.0%	***89%***
Profitability	EBITDA Margin	9.7%	12.5%	*65%*
	ROCE %	21.4%	47.7%	*68%*
	Revenue	$12M	$7M	

Industry Benchmarks - Primary: Education Services | Secondary: Health Care Services

Debt Maturities



Financial Statement Highlights

$ '000s	*(C)* Dec-24 (P)	*(B)* Dec-22 T12	*(A)* Dec-23 T12	Change (C) to (B)	Change (B) to (A)
Income Statement					
Total Revenue	7,327	6,356	7,327		15.3%
Gross Profit	7,327	6,356	7,327		15.3%
Adjusted EBITDA	(1,833)	158	917		480.5%
Gross Profit Margin	100.0%	100.0%	100.0%		0 bps
Net Income	(1,842)	173	908		425.9%
Balance Sheet					
Cash And Cash Equivalents	2,840	232	90		-61.1%
Total Current Assets	4,119	1,449	1,369		-5.5%
Total Assets	4,828	1,970	2,078		5.5%
Total Current Liabilities	157	161	157		-2.3%
Total Debt	-	-	-		n/a
Total Equity	1,870	1,719	1,870		8.8%
Key Ratios					
Current Ratio	26.18	8.99	8.70		-3.3%
Quick Ratio	26.18	8.99	8.70		-3.3%
Net Debt / EBITDA		(1.47)	(0.10)		-93.3%
Debt to Assets	0.0%	0.0%	0.0%		0 bps
EBITDA Margin	-25.0%	2.5%	12.5%		+1003 bps
ROCE %	-39.2%	8.7%	47.7%		+3901 bps

- Seal South's revenue increased by 15.3% in FY-23, reflecting solid top-line growth driven by increasing demand for specialized services.
- Operational efficiency increased substantially from a 2.5% EBITDA Margin in FY-22 to 12.5% in FY-23. They don't report any COGS.
- Despite a healthy operating cash flow, cash and cash equivalents decreased by 61% in FY-23, largely due to significant distributions and investment outflows.

Business Risk Highlights

- **Industry:** The education services industry is projected to grow at 5.7% CAGR, driven by increasing demand for specialized programs, but regulatory changes (e.g., funding cuts) could introduce volatility.
- **Competitive Position:** Seal South operates in a niche segment, providing both education and therapy services, positioning it uniquely in the market. However, the lack of geographic diversity limits its competitive reach compared to larger national players. They claim to analyze their markets very well to develop programs that are most beneficial to their students, which is one of their USPS. Their waiting list provides the entity with strong confidence that they don't really have a serious competitor.
- **Management:** The company's conservative financial management—maintaining a debt-free structure—is a clear strength. Although Karen Larson is the last remaining founder and sole proprietor, the top management team is very familiar and read to step it up, even though there is no formal succession plan in place (call on 10/1/2024)
- **Other:** Regulatory Exposure - Compliance with laws such as the Individuals with Disabilities Education Act (IDEA) is crucial. Any non-compliance could jeopardize operations, particularly