Effectively "Licaflex Packaging, Inc." despite Holdco

B+ *1 year PD* **0.60% to 1.89%**

- Strong EBITDA margin (35.6%) and ROCE (22.6%) despite a modest revenue growth and negative cash balance in FY-23, making a very positive turn in FY-24 (P) with +25.7%.
- PE backing provides funding and expertise to grow beyond Canada by acquiring Plastic Suppliers, Inc. Structural complexities and transparency issues are a concern.

Strengths

- **Profitability & Leverage (as-is):** EBITDA margin of 35.6% in FY-23 significantly outperforms the peer median of 9.4%, demonstrating exceptional operational efficiency and cost management. Leverage declined from 2.85 to 2.06 in FY-23, well below the peer median of 4.13, reflecting prudent financial management and a strong ability to service debt.
- **Private Equity:** Mainly backed by FTQ and Charter Oak - each 37.44%.
- **Diverse Product Offering:** Broad range of flexible packaging solutions (e.g., shrink films, laminated roll stock, stand-up pouches) enables the company to serve multiple industries, reducing dependency on any single segment.

Challenges

- **Leverage increase**: Notes to financials state a post FY-23 increase in debt by about 68% or roughly CAD27mn, which would have elevated leverage in FY-23 (excluding any increase in EBITDA) to 3.8x. According to the tenant, they hit a gross leverage of 3.5x in FY-24/FY-25.
- **Transparency:** To date, the tenant avoided confirming that no assets would be moved into the Holding structure, which raises concerns about a shelter.
- **Other:** 70% of their clients are in the US. The incoming US administration has repeadetly stated upcoming tarrifs with Canada. Leverage limitations (max 3.75x) due to a loan covenant, prevents Licaflex to guarantee the lease of Earthfirst (f/k/a Plastic Suppliers), and consolidate financials - hence, a Holding structure. Maturity wall in FY-27.

Company Overview

Headquarters	Montreal
Type	Private (PE)
Employees	<50
Year Founded	1988
Website	https://licaflex.com/
Business	Flexible plastic packaging manufacturer and supplier.
Revenues	$55.0M

- **Company Overview:** Licaflex Packaging, Inc. is a leading producer of flexible plastic packaging products. With operations concentrated in North America, it serves diverse industries, including food, beverage, and agriculture.
- **Product:** Shrink films, laminated roll stock, stand-up pouches, wicket bags, and heavy-duty packaging solutions tailored to industry-specific needs. Sustainability-focused product innovations to meet growing demand for environmentally friendly packaging.
- **Customers:** The company serves a wide range of industries, reducing dependency on any single sector. Customers span food processing, agriculture, retail, and industrial markets.
- **Ownership:** Privately held by Charter Oak Equity and Fonds de solidarité FTQ, providing financial stability and strategic direction.
- **Debt Structure:** Majority of debt was refinanced in FY-23 through 2/27, and extended by an additional 68% or CAD27mn. Since its' amortizing quarterly, and we don't have much insight into the loan terms, the UPB of CAD57mn is a proxy.
- **Other:** We have 10 months of SD going in. 4 months will burn off when they hit $2.5mn in EBITDAR (approximately FY-28). Upon a leverage of 3.5x (total debt/EBITDA) an additional 3 months in SD will burn off (approximately not before FY-30), with the balance being removed when they hit that in another year. This lease requirement relates to Earthfirst Newco only!

Financial Statement Highlights

CAD '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	-	54,266	55,002		1.4%
Gross Profit	-	18,322	22,954		25.3%
Adjusted EBITDA	-	16,829	17,744		5.4%
Gross Profit Margin		33.8%	41.7%		+797 bps
Net Income	-	5,958	4,259		-28.5%
Balance Sheet					
Cash And Cash Equivalents	-	2,564	(55)		-102.2%
Total Current Assets	-	20,043	17,949		-10.4%
Total Assets	-	79,226	75,523		-4.7%
Total Current Liabilities	-	10,839	13,739		26.8%
Total Debt	-	50,529	40,247		-20.3%
Total Equity	-	24,232	30,306		25.1%
Key Ratios					
Current Ratio		1.85	1.31		-29.4%
Quick Ratio		1.69	1.17		-30.8%
Net Debt / EBITDA		2.85	2.27		-20.3%
Debt to Assets		63.8%	53.3%		(1049) bps
EBITDA Margin		31.0%	32.3%		+125 bps
ROCE %		15.5%	19.7%		+421 bps

- Revenue increased modestly by 1.4% from FY-22 ($54.27mn) to FY-23 ($55.0mn), yet projected growth in FY-23 to pick up by 25.7% to CAD69mn.
- Total debt decreased by approximately 23.4% year-over-year, from $42.8mn in FY-22 to $32.8mn in FY-23, yet anticipated to increase to 3.5x in FY-24, most likely in conjunction with the planned acqusition of Plastic Services, Inc.

Scorecard Summary

Financial vs Business Risk Weighting Factors

Ownership	Private (PE)
Company Stage	Growth
Financials	Complete

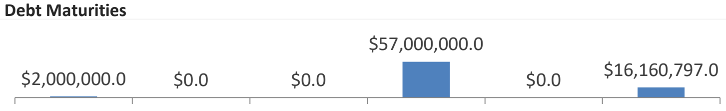
	Weight	Score	Dimension	Weight	Score
Financial	40%	6.5	Liquidity	30%	2.7
			Leverage	35%	2.7
			Profitability	35%	3.8
Business	60%	7.3	Industry Risk	15%	5.5
			Competitive Position	35%	7.6
			Mgmt / Governance	15%	6.3
			Sponsor / Parent	35%	8.2
Modifiers		-1.7	Revenue Segment		(0.5)
			Financial Flexibility		(0.25)
			Fixed Cost Coverage Risk		(0.25)

Financial Benchmarking & Debt Maturity Profile

# of Benchmarks:	*18*	Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	1.75	1.31	19%
	Quick Ratio	1.04	1.17	66%
Leverage	Net Debt / EBITDA	4.13	2.27	72%
	Debt to Assets	49.3%	53.3%	43%
Profitability	EBITDA Margin	9.4%	32.3%	100%
	ROCE %	5.7%	19.7%	88%
	Revenue	$296M	$55M	

Industry Benchmarks - Primary: Paper and Plastic Packaging Products and Materials

Debt Maturities



Business Risk Highlights

- **Industry:** The flexible packaging industry is projected to grow at a CAGR of ~3% in North America, driven by demand for convenience and sustainability. However, regulatory pressures related to plastic waste present challenges, which could be a benefit to .
- **Competitive Position:** Licaflex's vertically integrated operations and strong EBITDA margin position it as a cost-efficient and competitive player in the market.
- **Management:** Strong operational oversight demonstrated through sustained profitability improvements and strategic debt reduction, though liquidity issues signal a need for enhanced cash flow management.
- **PE Sponsor:** With $500mn invested in 30 niche portfolio companies and an AUM under $150mn, Charter Oak provides operational expertise but limited financial scale. Likely beneficial due to sector focus, despite relatively small resources. Fonds de solidarité FTQ on the other hand is backed by $18.4bn in net assets and a 40-year track record. The Fonds offers robust financial stability and strategic support, making it highly beneficial for Licaflex's credit risk profile.