ABC Supply Holding Corporation (d/b/a ABC Supply)

BB *1 year PD* **0.38% to 0.60%**

- An elevated debt-to-assets ratio (43.9%) limits their financial flexibility (34% debt increase in FY-23). Yet, they are sitting on $1.1bn in cash and ~$1.3bn in unused R/C- capacity.
- Ownership consolidation in '23 (Diane Hendricks, 77), simplifies governance, and succession concerns. EBITDA Margin exceeds peers, but in FY-23 they felt cost pressures.

Strengths

- **Liquidity and Cash Management:** The current, and quick ratio of 2.43/1.33 reflect strong liquidity compared to their peers, mainly supported by a $1.1bn cash position, a 372% increase vs FY-22.
- **Strong Geographic Presence:** With >970 locations across N.A., they have one of the most extensive networks in the industry, offering widespread customer coverage and the ability to efficiently manage inventory and distribution.
- **Resilient Profitability:** Despite slight margin contraction, they maintained a solid EBITDA margin of 11.1%, which is above the peer median of 10.5%, reflecting operational efficiency and profitability even as expenses have risen.

Challenges

- **Elevated Debt vs distributions:** The debt-to-assets ratio of 43.9% exceeds the peer median of 34.7%, following a 34% increase in total debt in FY-23, combined with a 12.4% increase in Leverage (partially due to decline of EBITDA by -2.6%). Distributions increased 3.7x since FY-21 to $1.4bn.
- **Decreasing Capital Efficiency:** ROCE declined from 25.3% to 20.3% in FY-23, signaling diminishing returns on capital employed. This trend could limit the company's ability to generate future profit and support debt servicing capacity.
- **Cost Pressures:** Despite an increase in Revenue by 10.1% in FY-23, EBITDA contracted by -2.6%, and Net Income actually declined by -9.1%, following an increase in COGS and OPEX (jointly) by 12.1% over the same timeframe.

Company Overview

Headquarters	Beloit, WI
Type	Private (Non-PE)
Employees	>20,000
Year Founded	1982
Website	https://www.abcsupply.com/products/
Business	Wholesale distributor of building and roofing materials.
Revenues	$20,391.1M

- **Company Overview:** ABC Supply, parent entity of the tenant "L&W Supply Corporation" is one of the largest wholesale distributors of exterior and interior building products with almost 1k locations in North America (including subs).
- **Product:** ABC Supply offers an extensive range of products, including roofing, siding, windows, gutters, and renewable energy products, ensuring it meets the needs of residential and commercial building projects.
- **Customers:** The company focuses on serving professional contractors and builders, ensuring reliable supply chains and delivery services, leveraging its vast network of locations for efficient distribution.
- **Ownership:** Privately owned by Diane Hendricks (born 1947), who bought back the remaining 40% in 2023, after selling it in 2010. This shall provide the company with additional flexibility in strategic decision-making and growth.
- **Debt Structure:** The entity needs to refinance almost half of its' debt through 2028, and more than half by 2029. However, the entity has an R/C-line over $1.5bn, of which they has $1.4bn in free capacity per 12/31/2024. In 2023 the average capacity under that line was $1.35bn. Assuming a $1.3bn capacity and an additional $1.0bn in cash (both conservative figures) they would have >$2bn in liquidity to manage any bottlenecks or refi scenarios through 2028.
- **Other:** What is the purpose for the increase in cash by 3.7x over FY-22, if they have $1.4bn in unused capacity under the R/C-line? What are the reasons that OPEX and COGS grew faster than revenue (FY-23) - how are they going to "fix" it? Do they have succession and contingency plan, including supply chain disruptions, but also related to Diane Hendricks? Why such high distributions?

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	14,759,002	18,514,409	20,391,128		10.1%
Gross Profit	4,403,343	5,537,000	5,980,900		8.0%
Adjusted EBITDA	1,742,974	2,326,833	2,266,670		-2.6%
Gross Profit Margin	29.8%	29.9%	29.3%		(58) bps
Net Income	1,384,720	1,961,328	1,783,538		-9.1%
Balance Sheet					
Cash And Cash Equivalents	223,003	232,218	1,096,830		372.3%
Total Current Assets	4,418,916	5,288,784	6,120,439		15.7%
Total Assets	7,349,009	8,520,910	10,350,282		21.5%
Total Current Liabilities	2,233,774	2,352,500	2,523,888		7.3%
Total Debt	3,404,328	3,383,752	4,548,606		34.4%
Total Equity	1,736,179	2,769,740	3,253,022		17.4%
Key Ratios					
Current Ratio	1.98	2.25	2.43		7.9%
Quick Ratio	0.90	1.00	1.33		33.2%
Net Debt / EBITDA	1.83	1.35	1.52		12.4%
Debt to Assets	46.3%	39.7%	43.9%		+424 bps
EBITDA Margin	11.8%	12.6%	11.1%		(145) bps
ROCE %	29.8%	33.9%	25.3%		(854) bps

- Revenue increased from $12.1bn in FY-20 to $20.4bn in FY-23 (+68%) reflecting strong growth momentum over the period.
- During that same period, EBITDA and Net Income increased by 87%/103%. Despite a fairly stable EBITDA Margin, Adjusted EBITDA and Net Income declined by -2.6%/9.1% in FY-23.
- Total Debt rose to $4.55bn (+34%) FY-23 pushing leverage from 1.35 to 1.52 under consideration of the increase of Cash & Equivalents by 372% from $232k to $1.1bn.

Scorecard Summary

Financial vs Business Risk Weighting Factors

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

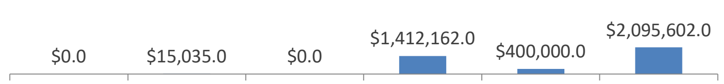
	Weight	Score	Dimension	Weight	Score
Financial	75%	6.0	Liquidity	15%	7.4
			Leverage	40%	4.1
			Profitability	45%	4.5
Business	25%	7.0	Industry Risk	20%	5.5
			Competitive Position	50%	8.3
			Mgmt / Governance	30%	5.7
			Sponsor / Parent		
Modifiers		-0.2	Revenue Segment		0.3
			Other Modifier		(0.50)

Financial Benchmarking & Debt Maturity Profile

# of Benchmarks:	*35*	Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	2.02	2.43	*75%*
	Quick Ratio	1.10	1.33	*70%*
Leverage	Net Debt / EBITDA	1.88	1.52	*58%*
	Debt to Assets	34.7%	43.9%	*27%*
Profitability	EBITDA Margin	10.5%	11.1%	*55%*
	ROCE %	18.9%	20.3%	*56%*
	Revenue	$7,346M	$20,391M	

Industry Benchmarks - Primary: Trading Companies and Distributors

Debt Maturities



Business Risk Highlights

- **Industry:** The building materials distribution industry is cyclical, heavily influenced by construction activity, economic conditions, and raw material price volatility. ABC Supply's exposure to these factors poses ongoing operational and profitability risks. The CAGR for the building materials distribution sector is projected at 3.6% through 2027.
- **Competitive Position:** They are a market leader in their respective segment, leveraging its large geographical presence and wide product range to maintain a strong competitive position against peers like Beacon Roofing Supply and 84 Lumber. Despite recent contractions, operational efficiency is at worst at par with their peers.
- **Management:** Strong leadership under Diane Hendricks provides the company with the stability and vision needed to manage through industry volatility. However, as a private entity, transparency on strategic initiatives and governance remains limited. We are not aware of a contingency and/or succession plan (yet), but there should be one.
- **PE Sponsor:** N/A
- **Other:** While ABC Supply has a robust logistics and inventory management system, it remains vulnerable to global supply chain disruptions, which could increase costs and lead to inventory