

Absolute Pallet, Inc.



- EBITDA turned from -\$25k (FY-2020) to \$136k in FY-2022, indicating improved operational profitability and mitigated liquidity concerns.
- A recent decline in gross profit margin, and EBITDA margin still being less than half of its' peers, give rise to concerns about sustainability of cash flows and profitability-outlook.

Strengths

- **Revenue:** The company has experienced a substantial increase in revenue, reaching \$2.98mn in FY-2022 (+85% since FY-2020). Being also a producer fo fire-wood, rather a by-product, adds to their diversity in revenue.
- **Positive ROCE:** With an ROCE of 81.0% (FY-2022) they are making very effective use of their capital, ranging notably higher than their peers (14.5%).
- **Improving Financial Health:** Upon achieving profitability in FY-2021, the company reduced its net debt to EBITDA to -0.80, putting them in a solid position to manage short-term obligations and debt, even though their current ratio is still about half of their peers.

Challenges

- **Profitability Concerns:** EBITDA margin of 4.6%, is still substantially below their peers of 9.6%, which means that they need to improve their ability to convert revenues to profits in general and more consistently.
- **Missing further insights:** Given the private nature of the entity, we have limited to no certainty about most of their qualitative KPIs (e.g. Management/Governance and Competitiveness).
- **Operational Efficiency:** Gross Profit Margin decreased from 41.8% in FY-2021 to 32.4% in FY-2022, following a 96% increase in COGS vs an 85% growth in revenue compared to FY-2020.

Scorecard Summary

	Weight	Score	Dimension	Contribution
Financial	50%	5.2	Liquidity	<div></div>
			Leverage	<div></div>
			Profitability	<div></div>
Business	50%	5.6	Industry Risk	<div></div>
			Competitive Position	<div></div>
			Mgmt / Governance	<div></div>
			Sponsor / Parent	<div></div>
			Revenue Segment	<div></div>
Modifiers		-0.6	Trend Analysis	<div></div>
			Financial Flexibility	<div></div>

Industry Benchmarks - Primary: Industrial Machinery and Supplies and Components

Company Overview

Headquarters	Bensalem, PA	U.S.
Type	Private (Non-PE)	
Employees	n/a	
Year Founded	2006	
Website	http://www.absolutepallet.com/	
Business	Recycling, manufacturing, and logistical solutions related to pallets	
Revenues	\$3.0M	

- **Company Overview:** Founded in 2006 (presumably by David Senss), Absolute Pallet, Inc., has demonstrated a notably positive trajectory in its financial and operational performance over the past 3 years.
- **Product:** Specializing in various pallet sizes and grades, the company is likely to cater to a diverse clientele, has a wide market reach, and adaptability to different industry needs.
- **Customers:** Serving a broad spectrum of industries, Absolute Pallet, Inc. has likely established a robust customer base, that's likely providing stability through diversification in demand and revenue generation going forward.
- **PE Sponsor:** Specific ownership details are vague (Linkeding: David Senss 100% shareholder, and CEO since inception), but understanding its structure would be crucial for assessing financial stability, general resilience, and decision-making processes.

Financial Ratio Benchmarking

# of Benchmarks: 41		Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	2.17	1.04	<div></div>
	Quick Ratio	1.22	1.04	<div></div>
Leverage	Net Debt / EBITDA	1.14	(0.80)	<div></div>
	Debt to Assets	25.7%	6.6%	<div></div>
Profitability	EBITDA Margin	9.6%	4.6%	<div></div>
	ROCE %	14.5%	81.0%	<div></div>
	Revenue	\$10M	\$3M	

- The company’s Current Ratio of 1.04x (vs peer median of 2.17x), indicates a tighter liquidity, limiting their ability to cover short-term liabilities.
- With a Net Debt/EBITDA of -0.80x, they are in a very comfortable position, providing substantial lending capacity which has historically rather been constraint by their debt service capacity.

Financial Statement Highlights

\$ '000s	Dec-20 T12	Dec-21 T12	Dec-22 T12	Chg
Income Statement				
Total Revenue	1,611	1,959	2,982	52.2%
Gross Profit	581	819	965	17.8%
Adjusted EBITDA	(25)	15	136	800.4%
Gross Profit Margin	36.1%	41.8%	32.4%	(943) bps
EBITDA Margin	-1.5%	0.8%	4.6%	+380 bps

Balance Sheet				
Cash And Cash Equivalents	62	87	130	49.5%
Total Current Assets	139	163	206	26.3%
Total Assets	204	233	301	29.3%
Total Current Liabilities	258	207	199	-3.6%
Total Debt	55	10	20	100.0%
Total Equity	(54)	26	102	288.2%

Cash Flow				
Net Income	(63)	(28)	76	
CAPEX	-	-	-	
Depreciation & Amortization	36	41	54	30.4%
Fixed Charge Coverage Ratio	0.32x	0.82x	1.38x	+0.6x

- Substantial increase in total revenue, escalating from \$1.6mn in FY-2020 to \$2.98mn in FY-2022 (+52%, and +85% since FY-2020).
- COGS surged from \$1.1mn in FY-2021 to \$2.0mn in FY-2022, indicating potential challenges in cost management. Yet when combined with OPEX, the joint increas in expenses increased by 46% y-o-y vs the revenue increase of 52%.
- EBITDA and Net Income turnaround, from -\$25k / -\$65k in FY-2020 to \$136k / \$76k in FY-2022, confirms the overall improvement in operational profitability.

Business Risk Highlights

- **Industry:** The Wood Pallets and Skids production industry in the US is set to grow at a fairly moderate CAGR of 1.9% until 2028. Depending on their competitiveness, they may outpace their peers as their focus is recycling of pallets, which may be more economical (TBD), and can provide a positive ESG impact not just for them but also to their clients.
- **Competitive Position:** Absolute Pallet, Inc. operates in an industry where technological advancements, like smart pallet technologies, could alter the competitive landscape, necessitating adaptability and innovation. At this point we were unable to gather further insights about their competitiveness though.
- **Management:** A lack of information about the management team and governance structures poses a potential risk when trying to assess the strategic and operational leadership of the company. However, we found indications that the owner, and CEO being David Senss, has been in charge since 2006, and as such would deserve credit for the steep economic improvements the entity has seen over the past 3 years.
- **PE Sponsor:** n/a