Del-Val Food Ingredients, Inc.

CCC

1 year PD
9.02% to 14.87%

- High leverage and declining EBITDA margin heighten credit risk concerns. Yet, a broad range of products reduces concentration risks. Despite a tough '23, they remained profitable though.
- Sharp expense-increase due to inflation and interest rates climbing worsened their performance in FY-23 materially, following a decline in revenue. Lack of transparency.

Strengths

- **Product Diversification:** Offers a broad range of flavor enhancers and bakery technologies, catering to diverse sectors like bakery, beverages, and prepared meals, which mitigates risk from reliance on any single product line.
- **Operational Efficiency:** Strong asset turnover of 276.2% in FY-23, indicates efficient utilization of assets to generate revenue despite declining margins.
- **Resilience:** They are in business since 1998, and therefore sustained not just the financial crisis but also COVID. Despite the negative post-COVID impact in FY-23, they remained profitable. Generally, stable demand, with moderate industry growth (4.8% - 5.0% CAGR).

Challenges

- **High Leverage & Liquidity Constraints:** A net debt/EBITDA ratio of 3.69, far exceeding the peer median of 0.76, reflects elevated financial risk and reduced flexibility. Quick ratio of 0.55 vs. peer median of 1.15 highlights dependence on inventory to meet liabilities, posing a short-term solvency risk.
- **Transparency:** Missing information about their performance in 2024, more details about their debt (e.g. loan covenants), nature of their Form 483 warning in 2017, and other qualitative parameters that would allow a better read.
- **Revenue and Profitability Decline:** EBITDA margin dropped to 5.1% (from 6.0%), below the peer benchmark of 6.5%, signaling operational inefficiencies or pricing challenges - most likely driven by inflation releated increase in expenses and much higher interest rates in 2023.

Company Overview

Headquarters	Mount Laurel, NJ
Type	Private (Non-PE)
Employees	<50
Year Founded	1998
Website	https://www.dvfi.com/en
Business	Provides flavor and bakery ingredient solutions.
Revenues	$38.9M

- **Company Overview:** Del-Val Food Ingredients, Inc. is a privately held provider of specialized food ingredient solutions headquartered in Mount Laurel, NJ.
- **Product:** Focuses on flavor enhancers (e.g. savoraide, savorhance) and bakery technologies, which are tailored for diverse sectors such as bakery, beverages, and sauces.
- **Customers:** Serves a broad range of customers in the food production value chain, reducing dependency on any specific segment.
- **Ownership:** Privately owned, led by CEO George Shapiro, emphasizing innovation and long-term partnerships.
- **Debt Structure:** Debt is mainly comprised of Operating Leases ($1.8mn), and UPB under an R/C-line ($4.7mn). No maturities or rate structures were provided.
- **Financials:** This assessment was based on FY-23, and FY-22 audited financials. However, the financials were very high level, and missing the typical level of detail.
- **Regulatory Compliance:** In 2017 the FDA issued a Form 483 warning letter, which could have been tied to a significant penalty. Since then they were audited 2 more times without any findings. Yet, it could be insightfull to learn more about the underlying issue then, how they addressed it, and actions taken to prevent similar incidents going forward.

Financial Statement Highlights

$ '000s	(C) Dec-21 #N/A	(B) Dec-22 T12	(A) Dec-23 T12	Change (C) to (B)	Change (B) to (A)
Income Statement					
Total Revenue		41,587	38,859		-6.6%
Gross Profit		10,478	9,978		-4.8%
Adjusted EBITDA		2,496	1,968		-21.1%
Gross Profit Margin		25.2%	25.7%		+48 bps
Net Income		1,950	1,219		-37.5%
Balance Sheet					
Cash And Cash Equivalents		25	302		1119.9%
Total Current Assets		12,055	11,113		-7.8%
Total Assets		15,352	14,067		-8.4%
Total Current Liabilities		9,555	9,137		-4.4%
Total Debt		7,645	7,557		-1.2%
Total Equity		2,920	2,959		1.3%
Key Ratios					
Current Ratio		1.26	1.22		-3.6%
Quick Ratio		0.68	0.55		-18.8%
Net Debt / EBITDA		3.05	3.69		20.7%
Debt to Assets		49.8%	53.7%		+392 bps
EBITDA Margin		6.0%	5.1%		(94) bps
ROCE %		38.9%	35.1%		(388) bps

- Total revenue declined by 6.6% YoY, from $41.6mn in FY-22 to $38.9mn in FY-23, reflecting either weaker demand or market competition.
- Interest expense doubled from $194k to $400k at a nearly unchanged debt level due to inflation drivven sharp increase of rates from 2022 to 2023. Due to cost inflation in FY-23, OPEX slightly increased, despite the decline in revenue, exascerbating the negative impact on EBITDA (-21.1%) and Net Income (-37.5%).

Scorecard Summary

Financial vs Business Risk Weighting Factors

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

	Weight	Score	Dimension	Weight	Score
Financial	50%	3.5	Liquidity	35%	*2.8*
			Leverage	33%	*1.6*
			Profitability	33%	*2.3*
Business	50%	5.5	Industry Risk	20%	*6.3*
			Competitive Position	50%	*5.5*
			Mgmt / Governance	30%	*5.0*
			Sponsor / Parent		
Modifiers		-0.6	Revenue Segment		*(0.2)*
			Trend Analysis		*(0.19)*
			Financial Flexibility		*(0.25)*

Financial Benchmarking & Debt Maturity Profile

# of Benchmarks:	*61*	Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	2.26	1.22	*28%*
	Quick Ratio	1.15	0.55	***20%***
Leverage	Net Debt / EBITDA	0.76	3.69	*26%*
	Debt to Assets	17.8%	53.7%	***18%***
Profitability	EBITDA Margin	6.5%	5.1%	*39%*
	ROCE %	9.8%	16.6%	*71%*
	Revenue	$40M	$39M	

Industry Benchmarks - Primary: Packaged Foods and Meats | Secondary: Specialty Chemicals

Debt Maturities

Business Risk Highlights

- **Industry:** The food ingredient market, while stable, is influenced by rising costs and regulatory scrutiny, requiring robust supply chain and compliance management. As a key demand driver, the US packaged foods and meats industry was valued at approximately $1.03tn in 2021 and projected to grow at a CAGR of 4.8% through 2030. The US specialty chemicals industry represents approximately 13% of global chemical production. In 2023, the global specialty chemicals market was valued at USD 627.7bn, with projections to reach $1.06tn by 2032, at a CAGR of 5.0%
- **Competitive Position:** Faces competition from established players like Kerry Group and Cargill but leverages niche expertise in customized ingredient solutions.
- **Management:** Strong regulatory compliance track record, but no significant disclosures on governance initiatives or risk management policies.
- **PE Sponsor:** N/A
- **Other:** Imports ingredients from multiple international sources, mitigating geographic supply risks but exposing the business to global disruptions.