

# Beverly Knits, Inc.



- AS-IS high credit risk with 60.1% debt to assets ratio, and a net income declining from \$5.8mn (FY-20) to -\$4.0mn (FY-23). However, proforma likely shifts their momentum.
- Stable management, expertise in textiles, cost cuts in FY-23 and SLB-deal point towards a brighter future.

Strengths

- Innovative Product Range & Market Position:** Specializes in diverse textile products including performance wear and technical fabrics, catering to various industries. One of the largest circular knitters in the U.S., with a strong presence in niche markets.
- Manufacturing and Operational Efficiency:** Multiple manufacturing facilities and a vertically integrated structure enhances operational efficiency.
- Cost cutting & Proforma:** Reduction in headcount from 375 to 175 (fully taking effect since 12/2023), shutting down unprofitable dyeing business, expected revenue growth in 2024 of ~20%, and return to profitability.

Challenges

- High Leverage:** Debt to assets ratio of 60.1% reduces financial flexibility whilst leverage is not meaningful given negative EBITDA.
- Profitability Issues:** Negative EBITDA margin (-0.8%) and ROCE (-9.2%) highlight operational and profitability challenges, which are most significantly unerpinned by 2 consecutive years of losses (-\$3.3mn in FY-20, and -\$4.0 mn in FY-23) - jointly limiting 3rd party financing options.
- Revenue decline:** Since FY-20 revenue declined by 48.5% from \$90.3mn to \$46.5mn in FY-23 (T11, annualized).

## Scorecard Summary (PROFORMA)

	Weight	Score	Dimension	Contribution
Financial	50%	4.8	Liquidity	<div></div>
			Leverage	<div></div>
			Profitability	<div></div>
Business	50%	6.4	Industry Risk	<div></div>
			Competitive Position	<div></div>
			Mgmt / Governance	<div></div>
			Sponsor / Parent	<div></div>
Modifiers		-0.5	Revenue Segment	<div></div>
			Fixed Cost Coverage Risk	<div></div>

Industry Benchmarks - Primary: Textiles

## Company Overview

Headquarters	Gastonia, NC	U.S.
Type	Private (Non-PE)	
Employees	<200	
Year Founded	1980	
Website	https://www.beverlyknits.com/	
Business	Specializes in innovative textile manufacturing and design.	
Revenues	\$51.8M	

- Company Overview:** Beverly Knits, Inc. is a leading textile manufacturer in the U.S., known for its innovation in fabric design and production. The entity has three subsidiaries - Creative Fabrics ("CFAB"), Altus, and Creative Dyeing Finishing ("CDF"). The latter was acquired in 10/2022.
- Product:** Offers a range of textiles including performance wear, intimate apparel, bedding, and technical fabrics for automotive and industrial applications.
- Customers:** Serves major brands across various sectors, indicating a diversified customer base.
- Ownership:** Family-owned since 1980, and founded by Robert and JoAnn Sytz, the company is currently led by CEO Ron Sytz and CFO Janet Sytz. Ron and Janet have two children (Parker and Lindley) both of which also have leadership roles within the company.
- PROFORMA:** Projected 20% revenue increase over FY-2023, excluding an \$5.5mn revenue (p.a.) - 5 year contract currently being finalized (Vileda). Included a cash infusion of \$9.1mn from the SLB-transaction of which \$7.7mn reduce long-term debt, and pro-rata (96.14%) of 2023 interest expenses. Net of \$550k for roof repairs, the balance was added to enhance their cash position. Furthermore, \$156k reduction in "prior" rental expenses, and the addition of \$861,300 in rent (post SLB). Assets will reduce by \$4.6mn asset.

## Financial Ratio Benchmarking (PROFORMA)

# of Benchmarks:	18	Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	1.39	1.37	
	Quick Ratio	0.60	0.60	
Leverage	Net Debt / EBITDA	2.64	4.65	
	Debt to Assets	32.8%	46.5%	
Profitability	EBITDA Margin	8.5%	6.9%	
	ROCE %	15.4%	6.7%	
	Revenue	\$63M	\$56M	

- High debt levels with a debt to assets ratio of 60.1%, significantly higher than peers.
- Negative EBITDA margin and ROCE compared to peers, highlighting profitability issues.

## Financial Statement Highlights (As-Is)

\$ '000s	Dec-20 T12	Dec-21 T12	Dec-22 T12	Chg
Income Statement				
Total Revenue	90,301	59,068	51,812	-12.3%
Gross Profit	9,857	7,495	2,441	-67.4%
Adjusted EBITDA	7,864	4,562	(414)	
Gross Profit Margin	10.9%	12.7%	4.7%	(798) bps
EBITDA Margin	8.7%	7.7%	-0.8%	(852) bps
Balance Sheet				
Cash And Cash Equivalents	12	30	24	-20.6%
Total Current Assets	13,174	18,545	19,028	2.6%
Total Assets	27,583	33,001	44,688	35.4%
Total Current Liabilities	10,777	10,570	14,652	38.6%
Total Debt	9,846	10,936	26,850	145.5%
Total Equity	13,951	16,530	12,590	-23.8%
Cash Flow				
Net Income	5,765	4,843	(3,298)	
CAPEX	2,046	1,262	4,408	249.3%
Depreciation & Amortization	1,799	2,157	2,356	9.2%
Fixed Charge Coverage Ratio	1.02x	1.63x	-0.52x	(-2.1)x

- Declining total revenue from \$90.3mn in F-20 \$51.8mn in FY-22 and \$46.5mn in FY-2023 (T11, annualized), substantiate a steep downward trend in sales.
- Increasing cost of revenue, impacting gross profit margins over the years.
- Rising operating expenses from \$3.8mn in FY-20 to \$5.2mn in FY-22, reflecting challenges in maintaining cost efficiency, especially when considering the decline in sales.

## Business Risk Highlights

- Industry:** Operates in the competitive textile industry, facing challenges like demand fluctuations and supply chain disruptions. The U.S. textile market size was estimated at \$251.8bn in 2022 and is expected to grow at a CAGR of 3.1% from 2023 to 2030.
- Competitive Position:** Strong market presence but facing profitability and operational efficiency issues.
- Management:** Family-owned structure with a multi-generational background in the textilses industry. Following the recognition that their 2022 acquisition won't turn a profit in the near term, they decided to close that division down (Q1/Q2-2024). They released about 200 people from their jobs in 2023 as a result of lower sales in mattresses. Ownership provided a cash injection in 8/2023 to finance the respective lay-offs. Strategically, they are working their way up the value chain, from the prior \$1/pound to an average of \$6/pound (newer contracts) as they turned into a full garment provider. These hard, yet strategic decisions were and are being executed.