

## Modular Closets, LLC



- Favorable leverage an liquidity represent a high level of financial flexibility. Substantial revenue growth (FY-21 to FY-23 +62%) with EBITDA Margin slightly below peers.
- Positive trend for FY-24(A) with ~11% higher revenue, and 204% higher Net Income, despite COGS growing ~52%. Limited information found in support of qualitative rating.

Strengths

- Leverage & liquidity:** The company’s Net Debt/EBITDA ratio of 0.44 (FY-23) significantly outperforms the peer median of 1.78, resulting equally from a steep increase in EBITDA (+93.4%) and declining debt (-43.5%) over the prior year. Debt-to-Asset ratio is also well below peers at 18.1%. To compensate for the top-level low liquidity, they have an unsecured, \$3mn LOC, fully unused.
- Capital Efficiency:** With a ROCE of 61.8% (FY-23) versus a peer median of 21.8%, the company demonstrates exceptional ability to generate returns on invested capital, supporting sustainable growth.
- FY-24 Trend:** FY-24(A) based on T9-24 through 9/24 projects a revenue increasey by ~11%, 3x higher profits, and throughout mainly improving KPIs.

Challenges

- Cost Control:** FY-24(A) suggests an increase in COGS by 52%, vs rising revenues by just 11%, reducing operational efficiency, at least for the time being.
- Limited Insights and Size:** Although the entity has a solid website, there wasn't much substance we could find online in support setting the qualitative rating parameters more adequately. The company is privately owned, after all. Relatively small entity size compared to the industry they are operating in increases the empirical near-term default risk.
- Supply Chain Risks:** Heavy reliance on inventory (up 47.3% YoY in 9/24) creates working capital challenges and vulnerability to cost fluctuations.

### Scorecard Summary

Financial vs Business Risk Weighting Factors					
Ownership		Private (Non-PE)			
Company Stage		Stabilized			
Financials		Complete			
	Weight	Score	Dimension	Weight	Score
Financial	75%	5.5	Liquidity	35%	3.1
			Leverage	33%	5.7
			Profitability	33%	4.4
Business	25%	6.0	Industry Risk	20%	5.1
			Competitive Position	50%	6.1
			Mgmt / Governance	30%	6.3
			Sponsor / Parent		
Modifiers	0.2		Revenue Segment		(0.6)
			Trend Analysis		0.25
			Financial Flexibility		0.50

### Company Overview

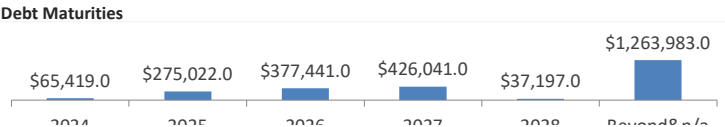
Headquarters	Lakewood, NJ
Type	Private (Non-PE)
Employees	~50
Year Founded	2015
Website	https://www.modularclosets.com/
Business	Designs and manufactures customizable closet systems.
Revenues	\$46.1M

- Company Overview:** Modular Closets, LLC designs and manufactures semi-custom modular closet systems. The company focuses on affordability, flexibility, and easy-to-install solutions targeted at residential customers.
- Product:** The portfolio includes customizable closet modules, pre-configured kits, and accessories such as shoe racks and hanging rods.
- Customers:** Modular Closets serves homeowners, contractors, and interior designers, selling directly through its e-commerce platform to reach nationwide customers.
- Ownership:** Privately held, with Bernard Warman serving as CEO and guiding strategic direction.
- Debt Structure:** Vast majority of debt is comprised of equipment and operating leases, with a fairly spread out maturity. The company has an unsecured, fully unused \$3.0mn Line of Credit which is used or liquidity purposes - inherently strengthening their Liquidity raiois, and increasing ROCE.

### Financial Benchmarking & Debt Maturity Profile

# of Benchmarks:	27	Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	1.64	0.98	8%
	Quick Ratio	0.84	0.66	39%
Leverage	Net Debt / EBITDA	1.78	0.44	75%
	Debt to Assets	25.4%	18.1%	70%
Profitability	EBITDA Margin	10.0%	9.3%	54%
	ROCE %	21.8%	61.8%	100%
	Revenue	\$52M	\$46M	

Industry Benchmarks - Primary: Building Products | Secondary: Homefurnishing Retail



### Financial Statement Highlights

\$ '000s	(C) Dec-21 T12	(B) Dec-22 T12	(A) Dec-23 T12	Change	
				(C) to (B)	(B) to (A)
Income Statement					
Total Revenue	28,455	38,034	46,064		21.1%
Gross Profit	17,298	24,152	30,147		24.8%
Adjusted EBITDA	1,000	2,226	4,304		93.4%
Gross Profit Margin	60.8%	63.5%	65.5%		+196 bps
Net Income	3,245	839	2,334		178.2%
Balance Sheet					
Cash And Cash Equivalents	425	466	1,002		114.9%
Total Current Assets	9,534	9,558	9,388		-1.8%
Total Assets	12,435	15,258	15,932		4.4%
Total Current Liabilities	6,649	8,761	9,583		9.4%
Total Debt	2,697	5,121	2,892		-43.5%
Total Equity	4,367	3,636	4,496		23.7%
Key Ratios					
Current Ratio	1.43	1.09	0.98		-10.2%
Quick Ratio	1.06	0.78	0.66		-15.5%
Net Debt / EBITDA	2.27	2.09	0.44		-79.0%
Debt to Assets	21.7%	33.6%	18.1%		(1542) bps
EBITDA Margin	3.5%	5.9%	9.3%		+349 bps
ROCE %	13.3%	29.8%	61.8%		+3206 bps

- Revenue grew from \$28.5mn in FY-21 to \$46.1mn in FY-23, and is slated to climb to ~\$52mn in FY-24 (annualized, based on T9 through September 2024).
- Equity grew by 91% per 9/24, at a near stable Debt-to-Asset ratio. EBITDA Margin is slated to swell up to ~15%, about 1/3 above market.

### Business Risk Highlights

- Industry:** The home organization market, valued at \$14.2B in 2023, is projected to grow at a 3.5% CAGR, offering moderate growth potential but exposing the
- Competitive Position:** Modular Closets benefits from its cost-effective modular solutions but faces competition from established brands like California Closets and ClosetMaid.
- Management:** Privately held, the company has limited public transparency. However, Bernard Warman’s leadership and operational focus provide stability since inception in 2015. No negative indications found about the entity or the management team, namely the CEO. The appointment of Jeffrey Rudolph as VP of Sales in 2020, bringing over 15 years of sales and operations experience, appears to be a very good decision considering the grwtho pathe the entity took from FY-21 onwards.
- PE Sponsor:** N/A