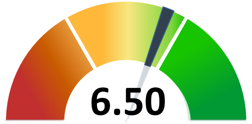
Five Star Food Service, Inc.



BB+ *1 year PD* **0.15% to 0.38%**

- Strong revenue growth and margins, backed by experienced leadership team. An unused $50mn R/C-line supports liquidity.
- High leverage, w/ 55% of Assets being Goodwill & Intangibles. Yet, the PE-firm is slated to contribute another $200mn of equity for growth. Their large loan was refi'd through 2030, with capacity of up to $600mn. Customer base is highly diverse.

Strengths

- **Strong Operating Profitability:** The company maintains a 15.3% EBITDA margin, well above the peer median of 9.9%, indicating strong cost discipline and pricing power in its micro market and vending service lines.
- **PE Commitment & Returns**: FY-24 ROCE reached 16.1%, more than double the peer median of 6.3%, supported by asset turnover of 150.5%, as they are reinvesting cash into productive assets. Freeman Spogli invested ~$300mn in equity to date, and is expectd to inject an additional $200mn this year.
- **Service and Geographic Diversification:** Operates across six southeastern states, with multiple service lines (vending, micro markets, OCS, dining, catering), reducing reliance on any single revenue stream or regional economic cycle.

Challenges

- **Over-Leveraged Balance Sheet:** FY-24 debt-to-assets at 87.7% and Net Debt/EBITDA at 3.66x, far above peers (32.6% and 2.80x, respectively), increase the risk of covenant pressure and refinancing challenges. Total Liabilities exceed Total Assets --> technical insolvency.
- **Persistently Negative Equity:** Although dramatially improved, equity was negative since FY-21 (-$55.3mn), ending FY-24 at (-$2.1mn). This limits flexibility with traditional lenders, especially since 55% of Total Assets are comprised of Goodwill and Intangible Assets.
- **Liquidity Tightness:** Cash halved to $13.5mn in FY-24, and quick ratio declined to 0.74, well below the peer median of 1.11, highlighting operational cash strain and a weak short-term financial cushion.

Company Overview

Headquarters	Chattanooga, TN
Type	Private (PE)
Employees	500 - 1k
Year Founded	1993
Website	https://www.fivestarbreaktime.com
Business	Unattended retail and workplace foodservice provider.
Revenues	$648.2M

- **Company Overview:** Five Star Food Service, Inc. is a leading regional provider of unattended retail and full-service food and beverage solutions, HQ'd in Chattanooga, TN. Backed by Freeman Spogli & Co., the company has grown through acquisitions and operational scaling since its founding.
- **Product:** Micro Markets & Vending (35% EBITDA Margin!)- thousands of self-service food and beverage stations across workplaces and institutions. Office Coffee & Pantry - tailored coffee, water, and pantry programs for employee refreshment. Dining & Catering - full-scale B2B dining programs.
- **Customers:** Employers in manufacturing, logistics, education, and healthcare, offering both long-term contracts and point-of-service models.
- **Ownership:** Privately owned by Freeman Spogli & Co., a U.S.-based PE firm with a track record in consumer-facing service platforms.
- **Debt Structure:** The entity carries almost $350mn in LT debt, which is not further qualified (e.g. terms). We aren't aware of an R/C-line.
- **Basis for Assessment:** FY-21 - FY-24 audited, yet abbreviated financials (no c/f,-statement, and no notes to financials). FY-24 is most important.
- **No Single Event Risks Remain:** Refinancing - was addressed 12/24, when they refinanced through 2030. Major contract loss that could compress EBITDA isn't a major concern as their biggest competitors are their clients, and they have a highly granular customer base across single names, franchises, industries. Sponsor non-support could be a concern, but they are actually expected to be doubling down with an additional $200mn in equity vs current $300mn investment. Low Liquidity is a result of growth strategy, slim inventory and high turnover. In addition they have a fully undrawn $50mn R/C-line.

Financial Statement Highlights

$ '000s	(C) Mar-22 T12	(B) Mar-23 T12	(A) Mar-24 T12	Change (C) to (B)	Change (B) to (A)
Income Statement					
Total Revenue	437,270	552,509	648,227		17.3%
Gross Profit	247,557	314,138	369,376		17.6%
Adjusted EBITDA	65,162	84,551	99,410		17.6%
Gross Profit Margin	56.6%	56.9%	57.0%		+13 bps
Net Income	19,505	19,101	14,505		-24.1%
Balance Sheet					
Cash And Cash Equivalents	22,038	27,434	13,537		-50.7%
Total Current Assets	66,744	85,656	73,209		-14.5%
Total Assets	279,627	406,529	430,818		6.0%
Total Current Liabilities	47,097	60,506	64,034		5.8%
Total Debt	271,055	370,782	377,794		1.9%
Total Equity	(35,725)	(16,624)	(2,119)		87.3%
Key Ratios					
Current Ratio	1.42	1.42	1.14		-19.2%
Quick Ratio	1.05	1.04	0.74		-28.6%
Net Debt / EBITDA	3.82	4.06	3.66		-9.8%
Debt to Assets	96.9%	91.2%	87.7%		(351) bps
EBITDA Margin	14.9%	15.3%	15.3%		+3 bps
ROCE %	16.1%	14.7%	16.1%		+141 bps

- Revenue rose from $273.6mn in FY-21 to $648.2mn in FY-24, a 19% CAGR, driven by both acquisitions and organic expansion in unattended retail.
- EBITDA improved from $36.5mn in FY-21 to $99.4mn in FY-24, with margins expanding and holding at 15.3% in FY-23/24 despite cost pressures.
- While total assets increased to $430.8mn in FY-24, total liabilities exceeded assets, resulting in technical insolvency for the fourth straight year.

Scorecard Summary

Financial vs Business Risk Weighting Factors

Ownership	Private (PE)
Company Stage	Growth
Financials	Complete

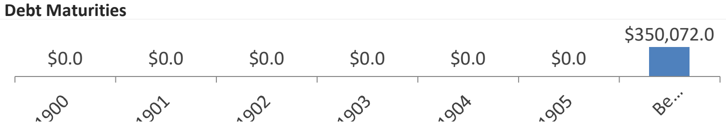
	Weight	Score	Dimension	Weight	Score
Financial	35%	5.3	Liquidity	25%	4.0
			Leverage	38%	1.5
			Profitability	38%	2.6
Business	65%	7.3	Industry Risk	15%	5.5
			Competitive Position	35%	7.9
			Mgmt / Governance	15%	7.7
			Sponsor / Parent	35%	7.4
Modifiers		-0.4	Trend Analysis		0.4
			Other Modifier		(0.75)

Financial Benchmarking & Debt Maturity Profile

# of Benchmarks:	*28*	Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	1.49	1.14	33%
	Quick Ratio	1.11	0.74	20%
Leverage	Net Debt / EBITDA	2.80	3.66	45%
	Debt to Assets	32.6%	87.7%	6%
Profitability	EBITDA Margin	9.9%	15.3%	71%
	ROCE %	6.3%	16.1%	93%
	Revenue	$572M	$648M	

Industry Benchmarks - Primary: Diversified Support Services

Debt Maturities



Business Risk Highlights

- **Industry:** The Diversified Support Services industry in the U.S., encompassing sectors such as vending, office coffee, and workplace dining solutions, is valued at >$80bn and is projected to grow at a 4.2% CAGR through 2028, driven by demand for outsourced workplace amenities and automated retail solutions The market is fragmented with two other major competitorw. Critical success factors are technological adaptability (e.g. cashless payments, telemetry, inventory automation) and service reliability.
- **Competitive Position:** The company has a strong regional footprint and benefits from scale in micro markets, but faces increasing national competition from Canteen (Compass), Aramark, and smaller OCS/dining players.
- **Management:** No signs of material governance failures or fraud, though employment litigation has recurred. Operational strategy is heavily reliant on automation and tech, requiring sustained investment.
- **PE Sponsor:** Founded in 1983 Freeman Spogli is an LA-based PE-firm specialized in middle-market investments in the consumer and distribution sectors. They raised >$9.3bn in capital across 9 institutional funds, invested over $5.9bn in 71 platform companies, and completed >250 add-on acquisitions (total transaction volume ~$29bn). They acquired Five