Modernfold/Styles, Inc.

CC *1 year PD* **20.71% to 26.55%**

- Liquidity constraints, despite R/C-line and high leverage limit financial flexibility, though recent profitability improvements show partial recovery. Waived covenant breach in 2023.
- Regional concentration and rising fixed costs heighten risk, but product diversity and stable management support resilience. Bobby Styles III joined the company in 5/24.

Strengths

- **Revenue Growth:** They demonstrated steady revenue growth, increasing from $31.9mn in FY-22 to $37.7mn in FY-23 and $39.0mn in T8-24, indicating a strong demand for its products in the NY/NJ/Philadelphia region. They had a ~$58mn backlog for FY-24. In 2023 they had no meaningful customer concentration.
- **Profitability:** After a negative EBITDA of -$88K in FY-23, the company has rebounded to $1.19mn in T8 FY-24, reflecting potential operational improvements and cost management strategies beginning to take effect **(TBC)**.
- **Product Diversification & succession:** Modernfold/Styles offers a broad portfolio of space management solutions across multiple customer sectors, reducing dependence on any single market. Sectors served include corporate, education, hospitality, institutional, and retail spaces. Bobby Styles III joined the firm in 5/24.

Challenges

- **Severe Liquidity Constraints:** The current ratio of 0.76x (vs. peers 1.20x) and cash reserves of just $56k in both FY-23 and T8 FY-24 highlight a serious liquidity risk, forcing reliance on debt and supplier credit for working capital.
- **High Debt & Leverage Exposure:** Total debt remains elevated at $12.8mn, with Debt-to-Assets at 46.7% (vs. peers 29%). They struggled with negative equity (-$192k in FY-23) and recovered to $1.1mn in T8-24—but remains highly leveraged.
- **Increasing Fixed Costs and Covenant Breach:** Rent expenses tripled from $227K in FY-23 to $670K in T8-24, significantly increasing fixed cost base and reducing financial flexibility in case of a revenue downturn. In 2023 the entity breached certain loan covenants under its' Line of Credit, which were waived by the lender.

Company Overview

Headquarters	South Hackensack, NJ
Type	Private (Non-PE)
Employees	50 - 100
Year Founded	1957
Website	https://www.modernfoldstyles.com/
Business	Space management solutions and partition systems.
Revenues	$48.8M

- **Company Overview:** Modernfold/Styles, Inc. specializes in movable wall and space management solutions, offering a diverse range of operable partitions, glass wall systems, and smoke/fire protection barriers.
- **Product:** Modernfold - operable partitions and glass wall systems for flexible space design. Skyfold - automated, retractable partitions for enhanced acoustic control. PK-30 System - aluminum-framed demountable partitions, sliding doors, and storefront applications.
- **Customers:** Primarily serves commercial, educational, institutional, hospitality, and retail sectors, focusing on high-end corporate interiors and public spaces. Operates within the NY/NJ/Philadelphia region, catering to businesses requiring dynamic space division solutions.
- **Ownership:** Privately held, with no disclosed PE or external investor backing, making capital access and financial flexibility more challenging.
- **Debt Structure:** R/C-line over $13mn (max, subject to limitations), with a UPB of $7.75mn per YE-23, due 12/25. Balance is almost entirely Operating Leases.
- **Basis for Assessment:** Audited, and commented FY-22, FY-23. We mainly leaned on the latter. YTD unaudited, uncommented, unreviewed through 8-24.
- **Single Event Risks:** Liquidity crisis due to tightened supplier credit terms, sharp revenue decline due to major customer loss/regional slowdown, debt covmenat breach/refi failure. These risks are interconnected, as a liquidity crisis could lead to supplier credit tightening, which could disrupt operations, reduce revenue, and accelerate debt covenant breaches, ultimately increasing default probability.

Financial Statement Highlights

$ '000s	(C) Dec-22 T12	(B) Dec-23 T12	(A) Dec-24(A) T12	Change (C) to (B)	Change (B) to (A)
Income Statement					
Total Revenue	31,909	37,731	48,785		29.3%
Gross Profit	9,868	7,779	14,477		86.1%
Adjusted EBITDA	1,486	(88)	1,494		1800.9%
Gross Profit Margin	30.9%	20.6%	29.7%		+906 bps
Net Income	561	(830)	373		145.0%
Balance Sheet					
Cash And Cash Equivalents	1,396	56	56		0.0%
Total Current Assets	16,773	18,016	17,303		-4.0%
Total Assets	22,712	28,424	27,364		-3.7%
Total Current Liabilities	14,639	23,797	21,458		-9.8%
Total Debt	12,856	12,791	12,791		0.0%
Total Equity	1,525	(193)	1,087		664.2%
Key Ratios					
Current Ratio	1.15	0.76	0.81		6.5%
Quick Ratio	1.15	0.76	0.81		6.5%
Net Debt / EBITDA	7.71		8.53		
Debt to Assets	56.6%	45.0%	46.7%		+174 bps
EBITDA Margin	4.7%	-0.2%	3.1%		+329 bps
ROCE %	14.3%	-9.3%	18.0%		+2734 bps

- Cash reserves declined from $1.4mn in FY-22 to $56K in FY-23, remaining at $56K in T8-24, signaling persistent liquidity stress.
- Despite total debt remaining high at $12.8mn, the company avoided increasing its debt load from FY-23 to T8-24, indicating a focus on stabilizing leverage.
- EBITDA shifted from -$88K in FY-23 to $1.2mn in T8-24, showing signs of operational recovery but still far below the 12.5% EBITDA margin of peers.

Scorecard Summary

Financial vs Business Risk Weighting Factors

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

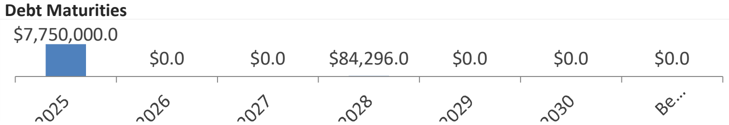
	Weight	Score	Dimension	Weight	Score
Financial	75%	3.1	Liquidity	52%	4.5
			Leverage	48%	1.3
			Profitability	0%	-
Business	25%	5.8	Industry Risk	20%	6.1
			Competitive Position	50%	6.1
			Mgmt / Governance	30%	5.0
			Sponsor / Parent		
Modifiers		-1.0	Revenue Segment		(0.1)
			Trend Analysis		0.25
			Financial Flexibility		(0.25)

Financial Benchmarking & Debt Maturity Profile

# of Benchmarks:	*37*	Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	1.20	0.76	31%
	Quick Ratio	0.75	0.76	47%
Leverage	Net Debt / EBITDA	2.08	n/a	0%
	Debt to Assets	29.0%	45.0%	31%
Profitability	EBITDA Margin	12.5%	-0.2%	
	ROCE %	9.4%	-9.3%	
	Revenue	$47M	$38M	

Industry Benchmarks - Primary: Building Products | Secondary: Specialized Consumer Services

Debt Maturities



Business Risk Highlights

- **Industry:** The broader building products industry is highly cyclical and dependent on commercial real estate demand, making it vulnerable to economic slowdowns or downturns in construction spending.
- **Competitive Position:** Faces modeate competition within their market. Yet, it still requires a clear differentiation in product innovation, pricing, and customer retention.
- **Management:** No disclosed strategic initiatives to secure external funding, despite high debt and liquidity constraints. Reliance on internal cash flows and supplier credit could heighten financial risks if demand softens. Bobby Styles III joined the entity, post college, in 5/2024, which shall provide some certainty about succession.
- **PE Sponsor:** N/A