Modern Equipment Co., Inc. (d/b/a Modern Store Equipment)

CCC *1 year PD* **9.02% to 14.87%**

- Y-o-y revenue declined by 29.8% with EBITDA dropping by 54.8% in FY-23 as OPEX increased by 17.6%. Mainly short-term contracts, and a high customer concentration risk.
- Strong leverage with debt-to-assets being ~20% below peers. Total debt increased by 60% in FY-23, but the entity has ~$2mn in unused R/C-capacity bolstering liquidity.

Strengths

- **Competitive Position**: The company's specialization in custom fixtures and refrigeration for liquor and convenience stores positions it in a niche, stable segment with fairly consistent demand. This focus provides insulation against broader retail volatility. Still profitable in FY-23, despite headwinds.
- **Leverage and Debt Management**: With a net debt-to-EBITDA ratio of 0.14 (better than the peer median of 1.28), the company maintains strong debt serviceability despite recent increases in borrowing (+60%).
- **Capital Efficiency**: A ROCE of 26.3% far exceeds the peer median of 15.1%, indicating the company's ability to generate substantial returns on invested capital, even during revenue declines. Profitable despite drop in revenue.

Challenges

- **Revenue Decline**: Revenue dropped by 29.8% in FY-23, to $21.8mn, significantly underperforming the industry CAGR of 4.3%. This raises concerns about customer retention or sector-specific pressures.
- **Profitability Erosion**: EBITDA margins declined from 9.0% to 5.8% in FY-23 - a significant drop in operational efficiency and rising OPEX (+17.6%).
- **Other Risks**: Dependence on a single manufacturing facility, with no reported redundancy or contingency plans. High customer concentration (59% of revenue), and 47% of A/Rs per 12/31/2023. Millwork and installation contracts are usually short-term (<1 year). Limited publicly availabe information preventing a more in-depth qualitative assessment. Equity decline by 57% in FY-23 alone!

Company Overview

Headquarters	Burlington, NJ
Type	Private (Non-PE)
Employees	<50
Year Founded	1961
Website	https://www.modernstoreequipment.com/
Business	Designs and manufactures retail store fixtures.
Revenues	$21.8M

- **Company Overview:** Specialized manufacturer of custom retail fixtures, refrigeration units, and modular shelving systems for liquor stores, supermarkets, and convenience stores.
- **Product:** Includes walk-in coolers, heavy-duty shelving, cash wrap counters, and theft-reduction solutions. The company emphasizes energy-efficient and modular designs to meet customer-specific needs. Almost all products/services are sold to corporate customers.
- **Customers:** Serves a broad client base (solely in the US) across essential retail sectors, reducing dependency on discretionary retail.
- **Ownership:** Privately held, operating independently without public disclosures of significant shareholders or parent entities.
- **Debt Structure:** Debt is predominantly comprised of term loans each of which are automatically created based on any amount outstanding under a $1mn equipment line of credit by the end of a year. There is no maturity wall. In support of working capital, the entity has a $2mn unsecured line of credit. Both lines were fully unused as of 12/31/2023.

Financial Statement Highlights

$ '000s	(C) Dec-21 T12	(B) Dec-22 T12	(A) Dec-23 T12	Change (C) to (B)	Change (B) to (A)
Income Statement					
Total Revenue	-	31,076	21,829		-29.8%
Gross Profit	-	7,185	6,374		-11.3%
Adjusted EBITDA	-	2,811	1,271		-54.8%
Gross Profit Margin	-	23.1%	29.2%		+608 bps
Net Income	-	2,589	931		-64.0%
Balance Sheet					
Cash And Cash Equivalents	-	2,598	2,116		-18.5%
Total Current Assets	-	8,343	4,938		-40.8%
Total Assets	-	10,635	8,014		-24.6%
Total Current Liabilities	-	5,650	4,503		-20.3%
Total Debt	-	1,435	2,298		60.1%
Total Equity	-	3,857	1,665		-56.8%
Key Ratios					
Current Ratio		1.48	1.10		-25.7%
Quick Ratio		1.29	0.94		-27.2%
Net Debt / EBITDA		(0.41)	0.14		
Debt to Assets		13.5%	28.7%		+1518 bps
EBITDA Margin		9.0%	5.8%		(322) bps
ROCE %		51.2%	26.3%		(2487) bps

- Revenue declined sharply by 29.8%, to $21.8mn in FY-23, indicating significant headwinds in client retention or market conditions.
- EBITDA decreased by 54.8%, to $1.27mn, driven by rising OPEX and falling revenue.
- Despite a 60.1% increase in total debt, operating cash flow improved substantially, rising from $0.50mn to $2.51mn, demonstrating stronger cash management.

Scorecard Summary

Financial vs Business Risk Weighting Factors

Ownership	Private (Non-PE)
Company Stage	Growth
Financials	Complete (Unaudited)

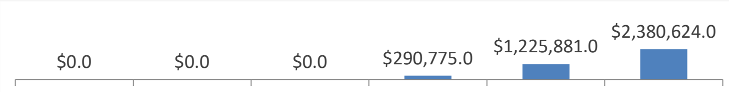
	Weight	Score	Dimension	Weight	Score
Financial	65%	4.4	Liquidity	40%	*2.8*
			Leverage	30%	*4.8*
			Profitability	30%	*2.3*
Business	35%	5.1	Industry Risk	20%	*5.1*
			Competitive Position	50%	*5.4*
			Mgmt / Governance	30%	*4.5*
			Sponsor / Parent		
Modifiers		-0.5	Revenue Segment		*(0.5)*
			Trend Analysis		*(0.33)*
			Financial Flexibility		*0.25*

Financial Benchmarking & Debt Maturity Profile

# of Benchmarks:	*41*	Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	1.57	1.10	*20%*
	Quick Ratio	1.10	0.94	*37%*
Leverage	Net Debt / EBITDA	1.28	0.14	*76%*
	Debt to Assets	35.5%	28.7%	*56%*
Profitability	EBITDA Margin	9.3%	5.8%	*28%*
	ROCE %	15.1%	26.3%	*69%*
	Revenue	$25M	$22M	

Industry Benchmarks - Primary: Building Products

Debt Maturities



Business Risk Highlights

- **Industry:** The retail fixtures industry is moderately volatile but projected to grow at a 4.3% CAGR through 2030, driven by investments in liquor, supermarket, and convenience store upgrades. The growth is further bolstered by recovery from deferred investments during COVID and the ongoing adaptation of retail spaces to hybrid and omnichannel models. While the pandemic initially disrupted investments, the industry's ability to align with evolving consumer behaviors, such as curbside pickups and in-store enhancements, has stabilized long-term growth prospects, maintaining steady demand.
- **Competitive Position:** Niche focus on custom solutions for essential retail sectors provides resilience but limits broader diversification into non-essential markets.
- **Management:** Limited transparency regarding governance practices or leadership structure poses risks, particularly for external stakeholders assessing reputational or operational risks.
- **PE Sponsor:** N/A