KREG THERAPEUTICS LLC ("KT")

CCC+

1 year PD
3.18% to 9.02%

- Strong margins and strong operational cash flow provide operational stability, supported by good customer diversity, and a large position in ARs. PE-supported entity, which is vital.
- High leverage, persistent Net Losses, low cash reserve and a steeply negative FCF elevate funding and refinancing risk if CAPEX level prevails. Sensitive to customer defaults.

Strengths

- **High-Margin Operating Model:** FY-24 EBITDA margin of 29.6%, nearly 3x their peers' (9.9%), underscores the strength of its, rental-based business model focused on proprietary products like the Catalyst® and E-Z Wider®.
- **Strong Liquidity Ratios (Despite Cash Pressure):** Despite ending FY-24 with just $330k in cash, the company maintained a current and quick ratio of 2.18x, both well above their peers' of 1.79x and 1.37x.
- **Customer Diversity & PE-backing:** Kreg operates across 15 service locations and serves over 50% of top trauma centers in the U.S., reducing reliance on any single customer or region. MSC acquired the company from Paragon Ventures in 4/22. Although they are likely driving and funding the expansion strategy, MSC doesn't have a disclosed healthcare expertise. Francis Carr, co-founder and partner at MSC serves as Chairman at KREG Therapeutics. MSC is small to mid-size PE-firm.

Challenges

- **Leverage and Capital Structure Fragility:** With Net Debt/EBITDA of 5.6x (vs. peers 1.4x) and a Debt-to-Assets ratio of 44.9% (with 63% of Total Assets being Intangibles), they are structurally over-leveraged.
- **Low Cash Reserves & Unsustainable CAPEX:** FY-24 ended with only $0.33mn inactual cash, following $15.2mn in CAPEX, far exceeding its $4.7mn in operating cash flow, creating a severe liquidity constraint (-$10.5mn FCF).
- **Negative ROCE:** Despite high EBITDA margins, FY-2024 ROCE is -3.6% compared to the peer median of +13.3%, showing that capital invested—particularly in fixed and intangible assets—is yielding subpar returns.

Company Overview

Headquarters	Melrose Park, IL
Type	Private (PE)
Employees	115
Year Founded	1996
Website	https://kreg.us/
Business	Rents advanced hospital beds and equipment.
Revenues	$26.9M

- **Company Overview:** Kreg Therapeutics, LLC is a U.S.-based provider of advanced specialty medical beds and therapeutic surfaces tailored for critically ill and bariatric patients. The company operates through a rental-driven, service-intensive model supporting hospitals and trauma centers nationwide.
- **Product:** KT operates a full-service rental platform that includes delivery, setup, staff training, and 24/7 clinical support via regional service centers - all revolving around hospital beds, therapy mattresses and mobility-enhancing accessories.
- **Customers:** Serves large hospital systems, regional medical centers, acute care facilities and 50% of the top trauma centers in the US. They operate in 20+ states supported by 15 regional hubs.
- **Ownership:** Privately owned by Milton Street Capital, a Texas based PE-firm that acquired them 04/22 from Paragon Ventures.
- **Debt Structure:** Majority of debt ($39mn) is long-term. We have not received affiliatd terms/structure, or are aware of an R/C-line.
- **Basis for Assessment:** Company prepared, uncommented FY-23, and FY-24 income statements and balance sheets, plus an i/s per FY-22. Main focus is on FY-24.
- **Single Event Risks:** A general decline in their customers payment morale, could trigger immediate cash shortfall given weak cash-liquidity and high AR exposure. Breach of leverage covenants or failed refinancing poses default risk due to elevated debt and limited equity buffer. Unfunded CAPEX and/or operational shocks may overwhelm cash flow without external support.

Financial Statement Highlights

$ '000s	(C) Dec-22 T12	(B) Dec-23 T12	(A) Dec-24 T12	Change (C) to (B)	Change (B) to (A)
Income Statement					
Total Revenue	21,578	23,941	26,866		12.2%
Gross Profit	21,463	23,726	26,798		12.9%
Adjusted EBITDA	7,455	6,792	7,942		16.9%
Gross Profit Margin	99.5%	99.1%	99.7%		+64 bps
Net Income	(9,389)	(8,032)	(8,386)		4.4%
Balance Sheet					
Cash And Cash Equivalents	-	1,873	330		-82.4%
Total Current Assets	-	9,576	8,784		-8.3%
Total Assets	-	105,347	100,161		-4.9%
Total Current Liabilities	-	3,101	4,033		30.1%
Total Debt		42,569	44,947		5.6%
Total Equity	-	60,499	52,133		-13.8%
Key Ratios					
Current Ratio		3.09	2.18		-29.5%
Quick Ratio		3.09	2.18		-29.5%
Net Debt / EBITDA		5.99	5.62		-6.2%
Debt to Assets		40.4%	44.9%		+447 bps
EBITDA Margin	34.5%	28.4%	29.6%		+119 bps
ROCE %		-4.1%	-3.6%		+55 bps

- Revenue grew from $21.6mn (FY-22) to $26.9mn (FY-24), with adj EBITDA rebounding from $6.8mn (FY-23) to $7.mn, despite ongoing Net Losses exceeding -$8mn annually.
- Despite their Net Loss, Cash Earnings of $2.975mn (Net Income + D&A) and Operating Cash Flow ($4.7mn) remained positive, but FCD (incl CAPEX) was -$10.5mn in FY-24.
- Shareholder equity fell by $8.4mn in FY-24 as losses mounted, pushing the Debt-to-Equity ratio up to 0.86x, and equity ratio down from 57.4% to 52.0%.

Scorecard Summary

Financial vs Business Risk Weighting Factors

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

	Weight	Score	Dimension	Weight	Score
Financial	30%	6.2	Liquidity	15%	*6.6*
			Leverage	40%	*2.9*
			Profitability	45%	*9.1*
Business	70%	5.1	Industry Risk	15%	*7.3*
			Competitive Position	35%	*6.5*
			Mgmt / Governance	15%	*3.0*
			Sponsor / Parent	35%	*3.8*
Modifiers		-1.0	Revenue Segment		*0.8*
			Financial Transparency		*(0.29)*
			Trend Analysis		*0.22*

Financial Benchmarking & Debt Maturity Profile

# of Benchmarks: *137*		Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	1.79	2.18	*57%*
	Quick Ratio	1.37	2.18	*66%*
Leverage	Net Debt / EBITDA	1.44	5.62	***19%***
	Debt to Assets	23.6%	44.9%	*26%*
Profitability	EBITDA Margin	9.9%	29.6%	***90%***
	ROCE %	13.3%	-3.6%	***12%***
	Revenue	$32M	$27M	

Industry Benchmarks - Primary: Health Care Equipment | Secondary: Health Care Services

Debt Maturities

Business Risk Highlights

- **Industry:** The Durable Medical Equipment ("DME") market is expected to grow at a 5.6% CAGR ('25–'30), but is exposed to Medicare reimbursement risk, high capital intensity, and logistics service complexity. The DME market is fragmented, with numerous players ranging from large corporations to specialized providers. Customer dependency is high, due to reliance on DME suppliers for essential equipment.
- **Competitive Position:** Despite strong EBITDA margins, Kreg operates against large incumbents like Agiliti Health, US Med-Equip, and Hillrom, all of which offer national reach and product/service bundling, potentially compressing pricing or customer retention. Regulatory Compliance, Technological Integration, and Supply Chain Resilience are considered critical success factors.
- **Management:** While CEO Christian Jorgensen and CFO Bob Ozelie bring operational and financial leadership, there is limited public disclosure of governance/contingencies.
- **PE Sponsor:** MSC's backing has enabled an aggressive CAPEX and network expansion. Founded in '16, they have >$400mn AUM and target lower-middle-market entities, lacking disclosed healthcare expertise. Their financial backing likely provides some credit support to Kreg, but industry inexperience limits strategic value-add in stressed scenarios