# Zina's Salads, Inc.


**B** *1 year PD* **1.89% to 3.18%**

- Since FY-22 (vs FY-24(A)) revenue grew 79% and EBITA Margin jumped from -2.7% to 15.5%. Net Income grew 5.8x over FY-23, equity 7.3x, and Liquidity improved substantially.
- Skepticism about management prevails as YTD financials through 11/20/24 quote a drop by -102% for "Ingredients", which is the main driver of the efficiency improvements.

**Strengths**

- **Strong EBITDA*:** Y-o-y increase by factor 40, boosting EBITDA Margin from 0.4% to 15.5% (2.4x peers), mainly due to lower OPEX by >25% or -$1.2mn, of which the drop for Incredients to a "refund" of $47k contributed by -$2.3mn.
- **Leverage & Liquidity:** Debt levels improved significantly, with the debt-to-equity ratio improving from (74.2%) in FY-22 to 24.4% in FY-23, and 15.5% per 11/24. Accounts Payables reduced by -25% over FY-23, and Cash grew 1.29x, substantially alleviating prior Liquidity concerns.
- **Product Diversity:** Offers a variety of salads (classic, grain, pasta, quinoa), allowing flexibility in catering to growing consumer preferences for healthy, ready-to-eat meals. Looking to diversify further (e.g. frozen/cooked meals).

**Challenges**

- **Profitability:** Despite improvements, EBITDA margin was at 0.4% in FY-23 vs industry median of 6.3%. The CEO mentioned that a benchmark of 3-4% is rather applicable for salads. The planned improvements should get them above the benchmark - yet per 15.5% they already seem to be far beyond that... .
- **Customer & Supplier Concentration:** During our call they stated a 70% customer concentration (top 5), which could be even higher on the supplier side, which they recently internationalized further (higher supply chain risk).
- **Accounts Payable & Size:** A/Ps are still 1.7x in FY-24 (A) w/ A/Rs being roughly the same as per FY-23. Small entity size increases empirical default risk.

## Company Overview

| | |
|---|---|
| **Headquarters** | South Plainfield, NJ |
| **Type** | Private (Non-PE) |
| **Employees** | <250 |
| **Year Founded** | 1983 |
| **Website** | https://www.zsalads.com |
| **Business** | Wholesale manufacturer of fresh, ready-to-eat salads. |
| **Revenues** | $14.9M |

- **Company Overview:** Zina's Salads, Inc. is a privately-owned wholesale manufacturer of ready-to-eat salads based in South Plainfield, NJ.
- **Product:** They specialize in classic, grain, pasta, and quinoa salads, serving a mix of grocery retailers and foodservice operators.
- **Customers:** Primarily focused on bulk wholesale distribution to retail grocers and foodservice providers.
- **Ownership:** Privately held, led by CEO Valentin Chelnokov. Original founder passed away in 2008. Her husband is still involved (presumably as a majority shareholder), but there seems to be an additional investor who prefers to remain unknown.
- **Debt Structure:** No maturity profile or covenants for R/C-line were provided.
- **Other:** During our call with Alex (CFO) and Valentin (CEO) on 10/25/2024 we noted a few inconsistencies/contradictions. There were tangible examples of mismanagement (e.g. improvement of manufacturing facility is >1 year delayed due to insufficient power supply). Yet, they did share a very positive success story - high level of versatility, creativity, and drive helped them to make it through COVID. Despite initial inconsistencies, a few follow-up questions being left unanswered, and answers provided being contradictory, they provided a thorough response on 11/4/24. That email included an update on the status of the respective deals they are working on and addressed almost all pending questions with them. Yet, the T11-24 financials, which we wanted to use for establishing a trend of improvement, seems to have a major inconsistency, with cost for "Ingredients" dropping by >100%. We were unable to get clarification. The data provided also shows strong Liquidity and Leverage improvements in FY-24(A).

## 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 | 8,308 | 14,155 | 14,888 | | 5.2% |
| Gross Profit | 3,883 | 4,587 | 5,561 | | 21.2% |
| Adjusted EBITDA | (226) | 56 | 2,301 | | 3973.6% |
| Gross Profit Margin | 46.7% | 32.4% | 37.4% | | +494 bps |
| Net Income | (174) | 340 | 2,320 | | 581.9% |
| **Balance Sheet** | | | | | |
| Cash And Cash Equivalents | 126 | 1,048 | 2,402 | | 129.1% |
| Total Current Assets | 795 | 2,211 | 3,364 | | 52.2% |
| Total Assets | 1,906 | 3,339 | 4,761 | | 42.6% |
| Total Current Liabilities | 1,050 | 2,302 | 1,720 | | -25.3% |
| Total Debt | 1,414 | 815 | 738 | | -9.5% |
| Total Equity | (120) | 284 | 2,355 | | 728.8% |
| **Key Ratios** | | | | | |
| Current Ratio | 0.76 | 0.96 | 1.96 | | 103.6% |
| Quick Ratio | 0.76 | 0.96 | 1.96 | | 103.6% |
| Net Debt / EBITDA | (5.69) | (4.12) | (0.72) | | -82.5% |
| Debt to Assets | 74.2% | 24.4% | 15.5% | | (893) bps |
| EBITDA Margin | -2.7% | 0.4% | 15.5% | | +1506 bps |
| ROCE % | -26.5% | 5.4% | 75.7% | | +7023 bps |

- Revenue increased from $8.3mn in FY-22 to $14.9mn in FY-24(A). During the same time the entity shifted from a Loss -$174k to profit $2.4mn based on YTD-11/24 annualized.
- The increase in A/Ps by 1.7x is still steep but a decline over FY-23 by -25%. Considering the reported increase in cash and equivalents from $126K in FY-22 to $2.4mn as of 11/20/2024, they are in a much better Liquidity position today than in FY-23.

## Scorecard Summary

**Financial vs Business Risk Weighting Factors**

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

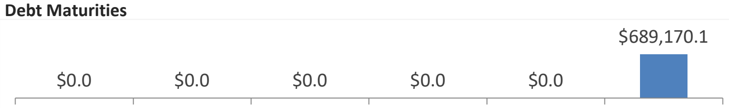
| | Weight | Score | Dimension | Weight | Score |
|---|---|---|---|---|---|
| **Financial** | 65% | 7.4 | Liquidity | 57% | *7.0* |
| | | | Leverage | 43% | *5.2* |
| | | | Profitability | 0% | - |
| **Business** | 35% | 5.3 | Industry Risk | 20% | *6.3* |
| | | | Competitive Position | 50% | *5.7* |
| | | | Mgmt / Governance | 30% | *4.0* |
| | | | Sponsor / Parent | | |
| **Modifiers** | | -1.7 | Revenue Segment | | *(1.5)* |
| | | | Trend Analysis | | *0.50* |
| | | | Other Modifier | | *(0.75)* |

## Financial Benchmarking & Debt Maturity Profile

| *# of Benchmarks:* | *27* | Industry Median | Company Metric | Percentile Rank |
|---|---|---|---|---|
| **Liquidity** | Current Ratio | 1.53 | 1.96 | *58%* |
| | Quick Ratio | 0.84 | 1.96 | ***76%*** |
| **Leverage** | Net Debt / EBITDA | 0.36 | (0.72) | ***81%*** |
| | Debt to Assets | 23.9% | 15.5% | *66%* |
| **Profitability** | EBITDA Margin | 6.3% | 15.5% | |
| | ROCE % | 6.6% | 78.2% | ***100%*** |
| | Revenue | $14M | $15M | |

*Industry Benchmarks - Primary: Packaged Foods and Meats*

**Debt Maturities**




## Business Risk Highlights

- **Industry:** The packaged foods industry, particularly healthy ready-to-eat meals, is projected to grow at 4.1% CAGR through 2028, reflecting favorable demand trends.
- **Competitive Position:** The company faces significant competition from larger players like Taylor Farms and Dole, with limited market share. To remain competitive and support long-term sustainability they are working on improving their facility which shall reduce labor expenses by about 30%, increase throughput, and drive EBITDA Margin to 5.0%. However, there are several uncertainties about when that might be the case.
- **Management:** CEO Valentin Chelnokov's leadership is critical, but no further information about governance or succession/contingency planning is available.
- **Other:** They have a high customer concentration. The same seems to apply to their suppliers. Importing ingredients generally increases operational risks. It is not clear when they will be able to complete the enhancements to the manufacturing facility, yet it should be within the next 12 months, and as a result improve operational efficiency, as well as productivity significantly. Risk Awareness is not their strong suit, but as long as they remain profitable, they have time to learn and fix their issues. FY-24(A) is a strong testimony that they'll be able