Cigarette Holdings, LLC ("CR")

CCC+

1 year PD
3.18% to 9.02%

- Strong growth of revenues, and profits. Margins vastly exceed peers', bolstered by even steeper growth projections in 2025/26.
- High debt burden, limited financial transparency, and dependence on a niche luxury market with elevated reputational and succession risks underscore structural vulnerabilities. Volatility of business causing a cashflow shortfall in Q1-25, questioning liquidity-supply.

Strengths

- **Profitability & Outlook:** FY-24 EBITDA margin of 35.8% (vs peers 8.4%), Adjusted EBITDA of $26.2mn, and Free Cash Flow of $17.2mn showcase top-tier earnings quality and cash generation relative to peers. Following a revenue growth of 38.7% since FY-22, the entity projects an additional growth of +44%, although T4 is not yet supporting it.
- **Premium Brand Equity with Global Recognition:** Cigarette Racing's legacy since 1969, brand alignment with AMG/Mercedes, and ultra-high-net-worth customer base support significant pricing power and market prestige.
- **Liquidity Buffer:** FY-24 Current / Quick Ratio improved to 2.17 / 1.06, due to lower inventory (-$9.1mn YoY) and A/R (-$7.5mn YoY), improving near-term solvency.

Challenges

- **Aggressive Distributions Leading to Equity Drain:** FY-24 distributions of $22.7mn exceeded FCF by 32%, driving Equity down by -23% YoY, despite positive Net Income and strong cash flows - raising concerns about Sponsors' long(er) term interests.
- **Structurally High Leverage, Equity Cushion, W/C swings:** FY-24 Debt-to-Assets is 74.1% (vs peers 35.8%), Debt-to-Equity at 3.19x, limiting resilience to downturns or asset write-downs (e.g. 28% of Total Assets were Goodwill per 12/24). A/R jumped per Q1-25 from $2.7mn to $29.7mn, and Inventory rose by $4.3mn, causing a shortfall in OCF of -$15.8mn and FCF of -$17.2mn.
- **Customer and Supplier Concentration Risk:** Reliance on elite dealer networks and suppliers like Mercury Racing poses vulnerability, especially given niche volume and specialized input needs. Yet, we are missing more details about specific concentrations. Moderate tariff concerns, due to main focus on the US.

Company Overview

Headquarters	Opa-locka, FL
Type	Private (PE)
Employees	50-200
Year Founded	1969
Website	https://cigaretteracing.com/
Business	Manufactures luxury high-performance powerboats.
Revenues	$73.2M

- **Company Overview:** Cigarette Holdings, LLC is a premium U.S.-based manufacturer of high-performance powerboats operating under the iconic Cigarette Racing Team brand.
- **Product:** Flagship Models - 515, 52 Thunder, Marauder, GTO, and Tirranna, high-speed V-bottom and center-console boats exceeding 125 mph. Lifestyle Extensions - Branded apparel, accessories, and limited-edition collaborations with AMG and Ducati reinforce the luxury brand image.
- **Customers:** Primary clientele includes ultra-high-net-worth individuals, professional racers, and brand collectors. Sales occur via a limited network of premium dealers and selective international expansion.
- **Ownership:** Privately owned by Lionheart Capital (PE-firm "LH") and John H. Ruiz (a high-net-worth entrepreneur and legal executive).
- **Debt Structure:** No terms or maturities related to the debt the entity carries was provided. As of 3/25 $13.4mn of their total debt is "current". The balance ($64mn) is long-term debt. However, we are likely missing an R/C-line providing added liquidity.
- **Basis for Assessment:** Company prepared, uncommented b/s and i/s covering FY-23, FY-24, and b/s per 4/25. FY-22 was sourced from their QoE-report.
- **Single Event Risks:** Refinancing Risk - due to high leverage (debt-to-assets) combined with missing transparency about the debt-structure. Key Person Risk - sudden Ruiz/Lionheart exit without transition could disrupt governance and financing continuity. Demand Shock / A/Rs default risk - A luxury market downturn could swiftly compress revenues and cash flow due to lack of diversification and fixed cost base. Jump in A/Rs in Q1-25 raises concerns about a potential client-default.

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	28,125	52,795	73,240		38.7%
Gross Profit	9,991	24,344	32,897		35.1%
Adjusted EBITDA	5,983	18,007	26,225		45.6%
Gross Profit Margin	35.5%	46.1%	44.9%		(119) bps
Net Income	5,983	14,181	16,116		13.6%
Balance Sheet					
Cash And Cash Equivalents	498	3,656	3,980		8.9%
Total Current Assets	39,640	36,282	16,355		-54.9%
Total Assets	79,040	92,718	94,130		1.5%
Total Current Liabilities	19,872	29,252	7,524		-74.3%
Total Debt	52,580	60,074	69,714		16.0%
Total Equity	24,168	28,465	21,875		-23.2%
Key Ratios					
Current Ratio	1.99	1.24	2.17		75.2%
Quick Ratio	1.07	0.64	1.06		65.0%
Net Debt / EBITDA	8.70	3.13	2.51		-20.0%
Debt to Assets	66.5%	64.8%	74.1%		+927 bps
EBITDA Margin	21.3%	34.1%	35.8%		+170 bps
ROCE %	10.1%	24.9%	20.0%		(489) bps

- Revenue grew from $28.1mn in FY-22 to $73.2mn in FY-24 (160% increase), with gross margins improving from 35.5% to 44.9% over the same period.
- Total liabilities increased from $54.9mn to $72.3mn, while total assets rose only modestly from $79mn to $94.1mn, driving leverage metrics materially higher.
- FY-24 CAPEX was $1.56mn, yet Free Cash Flow remained strong at $17.2mn, indicating high capital efficiency, but possibly underinvestment in future growth.

Scorecard Summary

Financial vs Business Risk Weighting Factors

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

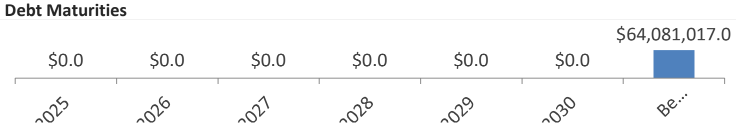
	Weight	Score	Dimension	Weight	Score
Financial	30%	6.8	Liquidity	30%	*6.1*
			Leverage	35%	*5.4*
			Profitability	35%	*8.8*
Business	70%	4.4	Industry Risk	15%	*5.0*
			Competitive Position	35%	*5.3*
			Mgmt / Governance	15%	*4.7*
			Sponsor / Parent	35%	*3.2*
Modifiers		-0.5	Revenue Segment		*(0.2)*
			Trend Analysis		*0.25*

Financial Benchmarking & Debt Maturity Profile

# of Benchmarks: 31		Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	1.64	2.17	*66%*
	Quick Ratio	0.97	1.06	*54%*
Leverage	Net Debt / EBITDA	3.30	2.51	*60%*
	Debt to Assets	35.8%	74.1%	*15%*
Profitability	EBITDA Margin	8.4%	35.8%	*97%*
	ROCE %	10.8%	20.0%	*76%*
	Revenue	$74M	$73M	

Industry Benchmarks - Primary: Leisure Products

Debt Maturities



Business Risk Highlights

- **Industry:** The U.S. luxury powerboat industry is cyclical and sensitive to discretionary income, but projected to grow at a 4.4% CAGR through 2030. The competitive landscape features a mix of boutique firms and large manufacturers like Brunswick and Malibu, competing largely on craftsmanship, performance, and prestige. Key success factors include brand reputation and luxury positioning, technological innovation (e.g., hybrid propulsion, smart navigation), and access to affluent customer segments.
- **Competitive Position:** CR competes with brands like Fountain, Donzi, and Nor-Tech, but its brand heritage, bespoke design, and celebrity affiliations provide a distinct advantage.
- **Management:** Operational success is diluted by aggressive capital extraction behavio. FY-24 distributions exceeded FCF, which may reflect short-term value extraction by ownership.
- **PE Sponsor:** Founded in 2010, Lionheart has demonstrated a strong track record in luxury real estate development and branded asset repositioning. While it lacks direct marine sector experience, its success in luxury branding, supported by $550mn+ in property sales, creates a credible path for Cigarette Racing's repositioning. The firm's use of SPAC vehicles ($645mn raised) underscores its financial capabilities, though a clearer disclosure of AUM and LP composition would improve credit transparency. CR benefits from strong financial backing,