

Ox Industries, Inc.

(PROFORMA RATING)



- Volatility in Leverage, Debt, and Revenue are the result of an acquisition (FY-22) that had a major hiccup, a burnt down mill in FY-22, all hitting in FY-23. R/C-line max'd out.
- Pending critical questions about validity of proforma financials, KPI-methodology and discrepancies related to EBITDA Adjustments.

Strengths

- Market Position:** Ox Industries, Inc. is the largest independently owned, vertically integrated manufacturer of 100% recycled paperboard, specialty papers, paper tubes & cores, and edge protection products in the US. They found a good niche below the 2 largest entities that command prices.
- Sustainability & Growth:** Commitet to using 100% recycled waste material for its products aligns with the growing trend towards sustainability and gives the company a competitive edge. The entity is currently focusing on organic growth, consolidation and efficiency improvements - as of 04/05 2024 they had record revenues, hoping for \$34.5mn in EBITDA (FY-24)
- Product Diversity:** Wide range of products, serving a diverse range of markets including the film and flexible packaging industry, tape and label industry, and the textile industry, which provides a steady revenue stream. After a non-compete ran out, they plan to re-enter building products market.

Challenges

- Financial Constraints:** Maturity Wall in 2025 over the entirety of their debt, including a max'd out R/C-line, limiting financial flexibility.
- Leverage:** Their Net Debt/EBITDA ratio has increased significantly, due to a steep increase in OPEX (+53%) vs rising revenue of just +8.5%.
- Perceived Data Inconsistencies:** Assessment of the proforma financials led to several questions currently pending clarification. We incorporated a 0.5 penalty to the rating until the respective questions have been addressed.

Scorecard Summary

	Weight	Score	Dimension	Contribution
Financial	65%	5.6	Liquidity	
			Leverage	
			Profitability	
Business	35%	6.9	Industry Risk	
			Competitive Position	
			Mgmt / Governance	
			Sponsor / Parent	
			Financial Flexibility	
Modifiers		-1.0	Other Modifier	

Company Overview

Headquarters	Hanover, PA	U.S.
Type	Private (Non-PE)	
Employees	~600	
Year Founded	1996	
Website	https://oxindustries.com/	
Business	Manufactures recycled paperboard and protective packaging products.	
Revenues	\$277.1M	

- Company Overview:** Ox is a leading manufacturer specialized in recycled paperboard, specialty papers, paper tubes & cores, and edge protection. They grew from a single tube & core facility to a fully vertically integrated operation with multiple mills and converting-facilities across the country.
- Product:** Their primary product lines are paperboard products, paper tube and core, and protective packaging.
- Customers:** They have a diverse range of markets including the film and flexible packaging industry, tape and label industry, and the textile industry. Their products are essential for these industries as they provide structural support and serve as a sturdy foundation to keep materials wound tightly and protect them from damage.
- Ownership:** Ox Industries, Inc. is an independently owned company and has made several acquisitions over the years to expand its operations.
- PROFORMA:** The entity is actively working on refinancing it's debt, maturing in 2025. Hence, they shared with us the proforma figures they passed on to the prospective syndicate of lenders for the refi, led by JPM. We did a deep-dive on the financials provided and went back with additional quesitons as the information currently available to us (e.g. T7 through 7/24) does not suggest that the company would meet their proforma targets. The respective proforma targets are critical though as their refi may otherwise fall through. We passed additional questions to the entity for clarification as well as further insights supporting their proforma financials for FY-24 (9/18/2024).

Financial Ratio Benchmarking

# of Benchmarks:		16	Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	1.70	1.13		20%
	Quick Ratio	0.92	0.73		32%
Leverage	Net Debt / EBITDA	4.43	2.82		66%
	Debt to Assets	48.6%	51.6%		43%
Profitability	EBITDA Margin	9.8%	12.5%		66%
	ROCE %	6.5%	14.0%		71%
	Revenue	\$268M	\$277M		
<ul style="list-style-type: none">Liquidity ratios are still ranging below, and leveravg above their peers' which limits their financial flexibility. Assessing the proforma raised a question about how the entity calculates EBITDA and adjustments that we weren't aware prior (pending questions as of 9/18/2024).					

Financial Statement Highlights

\$ '000s	Dec-22 T12	Dec-23 T12	Dec-24 (P) T12	Chg
Income Statement				
Total Revenue	251,347	272,723	277,135	1.6%
Gross Profit	56,151	62,831	66,588	6.0%
Adjusted EBITDA	28,394	20,605	34,547	67.7%
Gross Profit Margin	22.3%	23.0%	24.0%	+99 bps
EBITDA Margin	11.3%	7.6%	12.5%	+491 bps
Balance Sheet				
Cash And Cash Equivalents	2,155	1,068	3,854	260.9%
Total Current Assets	73,143	102,546	53,886	-47.5%
Total Assets	220,134	267,122	196,089	-26.6%
Total Current Liabilities	68,494	101,598	47,686	-53.1%
Total Debt	108,129	119,673	101,184	-15.4%
Total Equity	45,512	59,850	60,719	1.5%
Cash Flow				
Net Income	18,824	4,680	12,032	157.1%
CAPEX	77,324	31,471	6,444	-79.5%
Depreciation & Amortization	7,418	10,529	11,962	13.6%
Fixed Charge Coverage Ratio	12.17x	1.70x	2.38x	+0.7x

- Proforma Revenue for FY-24 hasn't been provided by Ox. Hence we did base it on annualized T7 figures through 7/24. However, the respective EBIT is about \$7mn below the EBIT that the tenant showed on their proforma financials for FY-24.
- Proforma suggests an increase in operational efficiency, and decline in debt. Lender syndicate is mandating a multi-year improvement plan on leverage, and FCCR.
- Inventory turnover ratio has decreased, indicating some operational challenges.

Business Risk Highlights

- Industry:** The company operates in the Cardboard & Paperboard Mills industry, which faces challenges from environmental regulations and the shift towards digital media. Growth projection is challenging as they operate in several markets, yet we anticipate a CAGR of ~4.1% from FY-22 through FY-29.
- Competitive Position:** The company's main competitors include Aspen Products, Papelsa, Ariva, and Reno de Medici. Commitment to use solely recycled waste for production gives the entity a competitive advantage, aside from their vertical integration. They found a niche below the 2 largest market players, focusing on more custom jobs.
- Management:** The executive team at Ox Industries, Inc. includes Kevin Hayward (CEO), Kirby Orewiler (CFO), Steve O'Donnell (General Counsel), and several Vice Presidents overseeing various departments, which shares responsibilities, and broadens the pool of experienced and flexible talent. The executive team knows each other personally since high school and they are very committed.