

## Acme Lock Company, LLC



- ACME Lock Company, LLC, has diversified revenue, yet its' leverage is quite high, posing a credit risk at the moment.
- Its competitive position, operational efficiency, and steep revenue growth are very promising. Near-term exit/sale to Broadcrest is possible/likely (\$12mn target closing late Nov).

Strengths

- **Diversified Revenue Streams:** ACME Lock Company, LLC has a diversified product and service portfolio, mitigating reliance on a single revenue source and reducing vulnerability to market fluctuations in specific segments.
- **Favorable Liquidity Position:** The company maintains a robust liquidity position, with a current ratio of 2.19, allowing it to meet short-term obligations and invest in growth opportunities effectively. Following their acquisition of Larry Lock their Net Income jumped from \$127k in FY-2022 to \$793k, which is just T7 through July 2023, providing further liquidity.
- **Competitive Positioning:** After acquiring their biggest rival (Larry Lock) they are having a dominating position within their local locksmith market.

Challenges

- **High Leverage:** With a debt to assets ratio of 79.3% (FY-2022) vs 68.9% (7/2023), the company’s heightened leverage poses some financial risks, yet partially compensated by increased revenue in 2023 (~30%+, proxy).
- **Management / Strategy:** The current CEO has little to no industry experience, yet an etrepreneurial, CEO/mgmt consulting background. As such, and in consideration of the offer from Broadcrest, the entity's strategy and trajectory (including changes in management) may lie ahead.
- **Industry Volatility:** The company operates in a highly competitive and fragmented environment, necessitating continuous adaptation to maintain market share and comply with evolving technologies (e.g. e-keys).

### Scorecard Summary

	Weight	Score	Dimension	Contribution
Financial	50%	5.4	Liquidity	<div></div>
			Leverage	<div></div>
			Profitability	<div></div>
Business	50%	7.0	Industry Risk	<div></div>
			Competitive Position	<div></div>
			Mgmt / Governance	<div></div>
			Sponsor / Parent	<div></div>
			Revenue Segment	<div></div>
Modifiers		-1.2	Trend Analysis	<div></div>
			Fixed Cost Coverage Risk	<div></div>
			Financial Transparency	<div></div>
			Other Modifier	<div></div>

Industry Benchmarks - Primary: Specialized Consumer Services | Secondary: Building Products

### Company Overview

Headquarters	Cincinnati, OH	U.S.
Type	Private (Non-PE)	
Employees	n/a	
Year Founded	1933	
Website	https://www.acmelock.com/	
Business	Safety and security devices	
Revenues	\$6.4M	

- **Company Overview:** Acme Lock Company, LLC is a professional locksmith service provider based in Cincinnati and Northern Kentucky. Given the competitive nature of the industry, the entity expanded it's service offerings beyond locksmithing over time. Most recently they acquired their biggest competitor (Larry Lock), which puts them in a position of local market dominance
- **Product:** The company offers a wide range of services including locksmithing for commercial, residential, and automotive needs, door supply, installation, and repair, glass and glazing installation, repair, and replacement, and safe opening, repair, and sales. They seem to have developed a specialty in creating and maintaining secure opening ecosystems, providing electronic hardware, and access control solutions.
- **Customers:** Within the locksmith industry, they can be considered a "full service provider", as they don't just offer emergency services, but also have residential, automotive and commercial clients.
- **PE Sponsor:** They are currently not PE-backed. However, on August 10th 2023, Broadcrest Asset Management, LLC issued a non-binding LOI to acquire the company for \$12mn, slated to close late November 2023. Considering the entity's comparatively high level of debt, an acquisition by a motivated, and liquid third party would tentatively have a positive effect on the respective Credit Risk. As of today, no PE Sponsorship has been considered when assessing ACME.

### Financial Ratio Benchmarking

# of Benchmarks: 32		Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	1.20	2.19	<div></div>
	Quick Ratio	0.76	1.20	<div></div>
Leverage	Net Debt / EBITDA	2.07	7.22	<div></div>
	Debt to Assets	32.9%	79.3%	<div></div>
	EBITDA Margin	10.6%	9.6%	<div></div>
Profitability	ROCE %	10.6%	5.9%	<div></div>
	Revenue	\$22M	\$6M	
<ul style="list-style-type: none"><li>• Debt to assets ratio of 79.3% was a substantial leverage, necessitating careful monitoring of debt management strategies and financial stability. Sincne then they were able to reduce it to 68.9%.</li><li>• Favorable current and quick ratios underscore a strong liquidity position, balancing short term financial flexibility and risk mitigation capabilities.</li></ul>				

### Financial Statement Highlights

\$ '000s	Dec-21 T12	Dec-22 T12	Jul-23 T7	Chg
Income Statement				
Total Revenue	-	6,498	6,440	-0.9%
Gross Profit	-	2,985	3,129	4.8%
Adjusted EBITDA	-	621	987	59.1%
Gross Profit Margin		45.9%	48.6%	+264 bps
EBITDA Margin		9.6%	15.3%	+578 bps
Balance Sheet				
Cash And Cash Equivalents	-	510	579	13.5%
Total Current Assets	-	2,804	3,603	28.5%
Total Assets	-	6,291	6,868	9.2%
Total Current Liabilities	-	1,282	1,340	4.5%
Total Debt	-	4,991	4,731	-5.2%
Total Equity	-	519	1,312	152.9%
Cash Flow				
Net Income	-	127	793	523.7%
CAPEX	-	(137)	-	
Depreciation & Amortization	-	327	235	-28.1%
Fixed Charge Coverage Ratio		0.50x	1.05x	+0.5x

- Despite general industry challenges, ACME Lock Company, LLC grew primarily through the acquisition of Larry Lock, and made meaningful investments in the entity to improve efficiency (EBITDA Margin went from 9.6% per FY-2022 to 15.3% in July 2023 (T7))
- With a current ratio of 2.19, the company has improved its ability to meet short-term liabilities, ensuring operational continuity quite substantially. Furthermore, when annualizing the add-on revenue from Larry Lock (~\$3.2mn T12 through 5/2022) and put it in realtion to the as-is net debt, that metric improves from 7.22x to 2.8x per 7/2023.

### Business Risk Highlights

- **Industry Risk:** ACME operates in the locksmith and building products industries, both of which are characterized by high competition
- **Competitive Edge:** ACME’s diversified service offerings and strong market presence enable it to navigate the competitive landscape and leverage growth opportunities in the industry. Larry Lock acquisition makes them dominant within their market.
- **Management and Governance:** Thomas O'Brien took over the position as CEO in the beginning of 2021. He has limited to no industry experience, but is a younger with a diverse background (serial CEO and Management Consultant). Within a short period of time he was able to improve efficienicyes (lower OPEX), acquire Larry Lock in 10/2022 (+\$3.2mn revenue), and line up Broascrest as a potential/likely take-out investor.
- **PE Sponsor:** Aside from the non-binding LOI issued by Boradcrest (\$12mn, est Nov 2023) to acquire the company, there is currently no private equity involvement at ACME.