# DIGI America, Inc. (wholly-owned sub of Teraoka Seiko Co., LTD)


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

- Declining profitability is putting pressure on cash flow. In FY-24 revenues declined whilst OPEX increased. Global network and support via and by the parent entity are stabilizing benefits.
- Strong liquidity offsets all liabilities. High diverisifcation of customers/industries, but significant supplier concetration. Tariff concerns may have led to inventory build-up in FY-24.

**Strengths**

- **Financial Liquidity & Low Leverage:** Strong cash reserves of $8.86mn in FY-24 and a negative net debt-to-EBITDA ratio (-3.19x) as the entity was not just debt-free but even liability-free after considering cash per end of 2024.
- **Operational Support & Brand Strength from DIGI Group:** As a sub of Teraoka Seiko Co., Ltd., DIGI America benefits from brand recognition, technological expertise, and access to a global supply chain (~20 suppliers, 9 countries) and production facilities in 4 regions, enhancing its competitive standing in the US.
- **Diverse Product Portfolio & Industry Reach:** DIGI America offers advanced weighing, labeling, and automation solution. Supplying retail, food processing, and logistics, reduces dependence on any single industry.

**Challenges**

- **Declining Profitability & EBITDA Margin Compression:** EBITDA margin dropped to 5.5% in FY-24 (vs. 11.6% in FY-23), as OPEX increased by 12% whilst COGS and Revenues dropped by about -7%. Lack of financial granularity, preventing insights.
- **APs rising faster than ARs & Inventory** AP surged 57% YoY ($4.7mn to $7.3mn), while AR declined to $5.6mn. Increased inventory (+$2.5mn) and lower sales are main reasons. Increased inventory may have been to temporarily dampen tariffs.
- **Supplier Concentration:** 77% of DIGI America's pruchases are from 3 vendors (2 are related parties), which may be subject to tariff that the (then president elect) thought about in 2024, and currently is acting upon.

## Company Overview

| | |
|---|---|
| **Headquarters** | Somerset, NJ |
| **Type** | Private (Non-PE) |
| **Employees** | N/A |
| **Year Founded** | 1974 |
| **Website** | https://www.digisystem.com/us/ |
| **Business** | Distributor and wholesaler of scales, wrappers, labelers & POS systems. |
| **Revenues** | $45.0M |

- **Company Overview:** DIGI America, Inc. is a provider of advanced weighing, packaging, and automation solutions, primarily serving the retail, food processing, and logistics industries.
- **Product:** Retail Solutions - POS-integrated weighing scales, self-checkout systems, and electronic labeling. Food Processing Equipment - automated packaging machines, portioning systems, and industrial-grade scales. Logistics & Industrial Weighing - precision-based weighing systems for warehouse and shipping operations.
- **Customers:** DIGI America serves large retail chains, supermarkets, food processors, and logistics companies.
- **Ownership:** DIGI America is a wholly-owned sub of Teraoka Seiko Co., Ltd., a Japanese firm with a global presence in industrial automation and weighing technologies.
- **Debt Structure:** The entity did not report any LT Debt nor an R/C-line, just about $1mn in Lease Liabilities. Net of Cash the entity doesn't have any liabilities.
- **Basis for Assessment:** Complete FY-22/23/24 set of financials including notes to financials. We were primarily leaning on FY-24 when assessing the credit risk.
- **Single Event Risks:** Supply Chain Disruptions – heavy dependence on Japanese suppliers, and international supply chains exposes operations to trade (e.g. tariffs) and geopolitical shocks. Profitability Decline – falling margins and rising fixed costs could erode cash reserves, triggering financial distress.

## 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 | 47,681 | 48,533 | 44,997 | | -7.3% |
| Gross Profit | 17,402 | 20,241 | 18,925 | | -6.5% |
| Adjusted EBITDA | 3,509 | 5,635 | 2,464 | | -56.3% |
| Gross Profit Margin | 36.5% | 41.7% | 42.1% | | +35 bps |
| Net Income | 2,396 | 3,949 | 1,661 | | -57.9% |
| **Balance Sheet** | | | | | |
| Cash And Cash Equivalents | 6,171 | 8,302 | 8,864 | | 6.8% |
| Total Current Assets | 20,800 | 20,709 | 23,664 | | 14.3% |
| Total Assets | 22,853 | 22,841 | 26,858 | | 17.6% |
| Total Current Liabilities | 7,985 | 4,819 | 7,415 | | 53.9% |
| Total Debt | 121 | 39 | 1,013 | | 2517.5% |
| Total Equity | 14,792 | 18,022 | 18,498 | | 2.6% |
| **Key Ratios** | | | | | |
| Current Ratio | 2.61 | 4.30 | 3.19 | | -25.7% |
| Quick Ratio | 1.53 | 2.97 | 1.99 | | -33.1% |
| Net Debt / EBITDA | (1.72) | (1.47) | (3.19) | | -117.3% |
| Debt to Assets | 0.5% | 0.2% | 3.8% | | +360 bps |
| EBITDA Margin | 7.4% | 11.6% | 5.5% | | (613) bps |
| ROCE % | 21.1% | 29.4% | 11.1% | | (1830) bps |

- EBITDA margin contracted to 5.5% in FY-24 (from 11.6% in FY-23), highlighting profitability concerns driven by increased operating costs.
- Revenue declined 7.3% YoY, from $48.5mn to $45.0mn, while inventory rose 40% to $8.9mn, potentially indicating slower demand or inefficient inventory turnover.
- Lease liabilities surged from $38K in FY-23 to $1.0mn in FY-24 - implrementing ASC 842.

## Scorecard Summary

**Financial vs Business Risk Weighting Factors**

| | |
|---|---|
| Ownership | Private (Non-PE) |
| Company Stage | Stabilized |
| Financials | Complete |

| | Weight | Score | Dimension | Weight | Score |
|---|---|---|---|---|---|
| **Financial** | 75% | 6.5 | Liquidity | 35% | 6.3 |
| | | | Leverage | 33% | 6.4 |
| | | | Profitability | 33% | 3.4 |
| **Business** | 25% | 5.9 | Industry Risk | 20% | 5.8 |
| | | | Competitive Position | 50% | 6.0 |
| | | | Mgmt / Governance | 30% | 5.7 |
| | | | Sponsor / Parent | | |
| **Modifiers** | | -1.3 | Revenue Segment | | (0.8) |
| | | | Trend Analysis | | (0.50) |
| | | | Financial Flexibility | | 0.25 |

## Financial Benchmarking & Debt Maturity Profile

| *# of Benchmarks:* | *44* | Industry Median | Company Metric | Percentile Rank |
|---|---|---|---|---|
| **Liquidity** | Current Ratio | 2.47 | 3.19 | 63% |
| | Quick Ratio | 1.68 | 1.99 | 58% |
| **Leverage** | Net Debt / EBITDA | (0.10) | (3.19) | 90% |
| | Debt to Assets | 9.8% | 3.8% | 63% |
| **Profitability** | EBITDA Margin | 9.4% | 5.5% | 26% |
| | ROCE % | 11.9% | 11.1% | 48% |
| | Revenue | $48M | $45M | |

*Industry Benchmarks - Primary: Electronic Equipment and Instruments*

**Debt Maturities**


## Business Risk Highlights

- **Industry:** The weighing and automation solutions market faces steady demand, but supply chain disruptions and pricing pressures can impact cost structure and profitability.The global market was valued at ~$2.5bn in 2023 and is projected to reach around 3.6 bn by 2030, growing at a CAGR of 5% during the forecast period.
- **Competitive Position:** DIGI America competes with Mettler-Toledo and Rice Lake Weighing Systems, but its EBITDA margin (5.5%) lags the 9.4% peer median, raising concerns about pricing power and cost efficiency.
- **Management:** As a subsidiary of Teraoka Seiko Co., Ltd., DIGI America benefits from financial backing, a global network of suppliers, and product development expertise, but its strategic decisions may be constrained by parent company directives.
- **PE Sponsor:** N/A