

## Flack Steel, LLC



CC1 year PD  
20.71% to 26.55%

- Flack faces significant credit risk due to high leverage (7.5x) shrinking EBITDA margins (2.6% in FY-23).
- Highly diversified business model, which is rather unique, yet also highly volatile (e.g. Net Income of \$12.8mn in FY-21, followed by \$82.1mn and \$0.6mn in FY-23), supported by a \$200mn R/C-line, of which \$130mn are unused.

- Strengths
- Hybrid Business Model:** Flack combines steel supply with financial risk management services, allowing it to offer unique value in mitigating market volatility for its customers. This business model differentiates the company from traditional steel suppliers.
  - Positive Operating Cash Flow:** Despite profitability issues, Flack maintains positive operating cash flow, generating \$47.8mn in FY-23, a crucial factor supporting liquidity and operational continuity.
  - Diversified Product Lines:** Their main segments are Metal Supply, Capital Markets, Metal Trading, and Manufacturing Investments. They serve multiple industries, including automotive, construction, and heavy manufacturing, providing a buffer against single-market downturns.
- Challenges
- High Leverage:** With a leverage of 7.51 vs the industry median of 2.2, Flack is heavily leveraged, comprised of utilization under an R/C-line and Lease Liabilities - raising concerns about its ability to service debt.
  - Declining Profitability & High Volatility:** EBITDA margins dropped from 11.7% in FY-22 to 2.6% in FY-23, following 0.9% in FY-21.
  - Liquidity Pressure:** The quick ratio declined to 0.53 in FY-23, compared to an industry median of 0.74, suggesting a shortfall in their ability to meet immediate obligations, yet they have \$130mn in capacity under the R/C-line.

### Scorecard Summary

Financial vs Business Risk Weighting Factors					
Ownership		Private (Non-PE)			
Company Stage		Growth			
Financials		Complete			
	Weight	Score	Dimension	Weight	Score
Financial	75%	3.1	Liquidity	25%	<div></div> 1.9
			Leverage	38%	<div></div> 3.8
			Profitability	38%	<div></div> 1.5
Business	25%	5.5	Industry Risk	20%	<div></div> 4.6
			Competitive Position	50%	<div></div> 6.1
			Mgmt / Governance	30%	<div></div> 5.0
			Sponsor / Parent		
Modifiers	-0.8		Trend Analysis		<div></div> (0.3)
			Financial Flexibility		0.50
			Fixed Cost Coverage Risk		(0.50)

### Company Overview

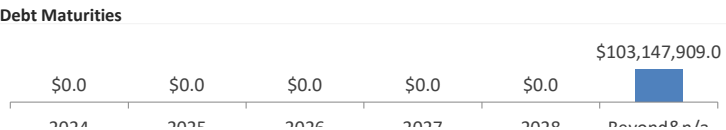
Headquarters	Scottsdale, AZ
Type	Private (Non-PE)
Employees	50-100
Year Founded	2010
Website	https://flackglobalmetals.com/
Business	A hybrid metal supply and financial services provider.
Revenues	\$508.7M

- Company Overview:** Flack Steel, LLC is a Scottsdale-based steel supplier that integrates metal supply chain management with financial risk mitigation services. The company’s business model is unique in that it separates pricing from physical supply, offering customers the ability to lock in certainty even during volatile market conditions.
- Product:** The company specializes in pre-painted, hot-rolled, and galvanized steel, as well as aluminum products, catering primarily to automotive, construction, and manufacturing sectors. Their main segments are Metal Supply, Capital Markets, Metal Trading, and Manufacturing Investments.
- Customers:** Flack serves medium to large industrial companies, offering them both physical materials and financial instruments to stabilize their supply chains.
- Ownership:** The company operates under the umbrella of "Flack Global Metals", a privately owned firm. As part of its growth strategy, Flack has expanded its operations through acquisitions, such as a majority stake in Pacesetter, further integrating its metal supply and financial services.
- Debt Structure:** Long-term debt is entirely comprised of long-term lease liabilities (~\$35mn) with an weighted average maturity in about 2037. The balance (~\$65mn) is primarily the utilization under their R/C-line, capped at \$200mn. No terms and/or covenants about the R/C-line has been available.
- Other:** CAPEX grew about 6x to \$12.2mn in FY-23, despite profitability and liquidity concerns - possibly in conjunction with Flack Metal Bank. \$29mn in Distributions taken in FY-23, despite Net Income of \$0.6mn.

### Financial Benchmarking & Debt Maturity Profile

# of Benchmarks:	46	Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	1.48	1.00	<div></div> 9%
	Quick Ratio	0.74	0.53	<div></div> 12%
Leverage	Net Debt / EBITDA	2.19	7.51	<div></div> 43%
	Debt to Assets	22.0%	45.4%	<div></div> 54%
Profitability	EBITDA Margin	7.2%	2.6%	<div></div> 7%
	ROCE %	6.1%	4.9%	<div></div> 19%
	Revenue	#NUM!	\$509M	

Industry Benchmarks - Primary: Steel | Secondary: Trading Companies and Distributors | Tertiary: Dive



### Financial Statement Highlights

\$ '000s	(C) Dec-21 T12	(B) Dec-22 T12	(A) Dec-23 T12	Change	
				(C) to (B)	(B) to (A)
Income Statement					
Total Revenue	518,965	599,834	508,735		-15.2%
Gross Profit	27,600	90,057	46,243		-48.7%
Adjusted EBITDA	4,686	69,964	13,075		-81.3%
Gross Profit Margin	5.3%	15.0%	9.1%		(592) bps
Net Income	12,774	82,119	606		-99.3%
Balance Sheet					
Cash And Cash Equivalents	59	392	642		64.1%
Total Current Assets	128,859	136,394	129,012		-5.4%
Total Assets	133,499	147,735	217,632		47.3%
Total Current Liabilities	102,822	59,096	128,823		118.0%
Total Debt	38,744	27,274	98,865		262.5%
Total Equity	28,820	80,414	48,285		-40.0%
Key Ratios					
Current Ratio	1.25	2.31	1.00		-56.6%
Quick Ratio	0.70	1.14	0.53		-53.3%
Net Debt / EBITDA	8.26	0.38	7.51		1855.1%
Debt to Assets	29.0%	18.5%	45.4%		+2697 bps
EBITDA Margin	0.9%	11.7%	2.6%		(909) bps
ROCE %	10.3%	70.6%	4.9%		(6575) bps

- Total revenue fell from \$600mn in FY-22 to \$509mn in FY-23, a 15% drop, primarily due to decreased demand or pricing challenges.
- EBITDA margin dropped from 11.7% to 2.6%, and Net Income by 99.3% to \$0.6mn in FY-23. Total Debt and Current Liabilities grew much more than Total/Current Assets.
- CAPEX increased roughly 6-fold to \$12.2mn in FY-23, reflecting substantial investment in operations despite profitability and liquidity concerns.

### Business Risk Highlights

- Industry:** The steel industry is cyclical, with demand heavily influenced by sectors such as construction and automotive. Economic downturns or shifts in these sectors can significantly impact revenue. The U.S. steel industry is valued at over \$100bn annually, with expectations to grow at a CAGR of around 3.2% from 2023 to 2028.
- Competitive Position:** While Flack Steel benefits from its hybrid model, it faces strong competition from major U.S. steel producers like Nucor and Steel Dynamics, which have more resources to weather market volatility.
- Management:** The management team’s hybrid approach—integrating financial services with steel supply—is innovative, yet the significant decline in profitability and rising leverage suggests potential gaps in operational execution and financial control. Over the past 12 months, Flack Steel, LLC has seen notable shifts in management, particularly through the expansion of Flack Global Metals into new areas such as the creation of the Flack Metal Bank. This new financial division has brought in industry veterans such as Sean Kessler from the CME, and Steven Potter, enhancing the company’s leadership in financial services, which are becoming an increasingly critical part of their business model