

## BestNest Inc.



- Profitability is normalizing (post COVID), refocus on cost control & debt managment in the near term is needed.
- Healthy current ratio of 1.43 and a robust ROCE of 21.9% suggest adequate short-term liquidity and effective capital use.

- Strengths
- Revenue Growth:** Demonstrated consistent revenue growth from \$15.5mn in 2020 to 24.0mn in 2022, indicating a potential to scale and capitalize on market opportunities.
  - Current Ratio:** Maintained a healthy current ratio of 1.43, which is above the peer median of 1.03, reflecting a strong short-term financial position and ability to meet short-term obligations.
  - ROCE %:** Achieved a ROCE % of 21.9%, significantly outperforming the peer median of 7.1%, reflective of an efficient use of capital to generate returns.
- Challenges
- Profitability Concern:** EBITDA Margin declined from 18.2% in 2020 to 6.7% in 2022. --> COVID-driven growth, and a normalization of margins post COVID.
  - Increasing Debt Levels:** The company's Net Debt/EBITDA ratio has escalated from -23.8% to 273.4% (2020 through 2022). --> result of steep increase in inventory (+324% since FY-2020), and bolt-on acquisitions. They are focusing on cost control and debt structure amendments in the near-term.
  - Liquidity Concern:** Quick Ratio of 0.07, significantly below peers (0.34), highlighting challenges in meeting short-term liabilities via liquid assets --> addressed with seasonality, as they purchase most inventory in December.
  - Negative Shareholder Equity:** Shareholder equity turned negative in 2021 and further declined to -\$2,6mn in 2022, indicative of dividend payouts.

### Scorecard Summary

	Weight	Score	Dimension	Contribution
Financial	50%	3.9	Liquidity	<div></div>
			Leverage	<div></div>
			Profitability	<div></div>
Business	50%	6.8	Industry Risk	<div></div>
			Competitive Position	<div></div>
			Mgmt / Governance	<div></div>
			Sponsor / Parent	<div></div>
			Revenue Segment	<div></div>
Modifiers		-0.6	Other Modifier	<div></div>

Industry Benchmarks - Primary: Food Retail

### Company Overview

Headquarters	Cincinnati, OH	U.S.
Type	Private (Non-PE)	
Employees	~50	
Year Founded	1999	
Website	https://www.bestnest.com	
Business	Online retailer of products for wildlife care and outdoor living.	
Revenues	\$24.0M	

- Company Overview:** BestNest is an online retailer in the outdoor living and wildlife care sector, offering a broad spectrum of products, with a notable emphasis on bird care, alongside other wildlife and outdoor living items.
- Product:** Bird Houses, Bird Feeders, Outdoor Living Products, Water Gardens, Other Wildlife Products, Seed, Suet & Food (a range of bird food and related items).
- Customers:** The main customers, while not explicitly defined, can be inferred to be bird watchers, homeowners with gardens or outdoor spaces, and enthusiasts of outdoor living and wildlife care, based on the product offerings.
- Ownership:** Majority owned by Ben Krieger (47), who acquired the entity from it's prior owner and founder.

### Financial Ratio Benchmarking

# of Benchmarks: 21		Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	1.03	1.43	<div></div>
	Quick Ratio	0.34	0.07	<div></div>
Leverage	Net Debt / EBITDA	3.39	2.73	<div></div>
	Debt to Assets	39.7%	32.9%	<div></div>
Profitability	EBITDA Margin	5.4%	6.7%	<div></div>
	ROCE %	7.1%	21.9%	<div></div>
	Revenue	\$115M	\$24M	

- Decline in EBITDA Margin to 6.7% necessitates a review of operational efficiency and cost management amidst revenue growth.
- With a quick ratio of 0.07, below the peer median, strategic enhancements in liquidity management are pivotal to ensure the company can adeptly navigate through short-term financial obligations.

### Financial Statement Highlights

\$ '000s	Dec-20 T12	Dec-21 T12	Dec-22 T12	Chg
Income Statement				
Total Revenue	15,494	22,123	24,000	8.5%
Gross Profit	6,444	8,995	9,576	6.5%
Adjusted EBITDA	2,821	2,833	1,602	-43.4%
Gross Profit Margin	41.6%	40.7%	39.9%	(76) bps
EBITDA Margin	18.2%	12.8%	6.7%	(613) bps
Balance Sheet				
Cash And Cash Equivalents	670	(421)	(65)	-84.5%
Total Current Assets	3,409	7,359	10,173	38.2%
Total Assets	3,409	10,704	13,126	22.6%
Total Current Liabilities	773	4,655	7,093	52.4%
Total Debt	-	2,530	4,316	70.6%
Total Equity	2,637	6,049	6,033	-0.3%
Cash Flow				
Net Income	2,325	2,044	634	-69.0%
CAPEX	-	-	-	
Depreciation & Amortization	-	25	280	1043.6%
Fixed Charge Coverage Ratio	14.70x	6.67x	2.26x	(-4.4)x

- The company's revenue grew by 55% since 2020. However, it came at a price with COGS growing by 59% and OPEX by 128% over the same timeframe. Although they remained profitable in FY-2022, EBITDA and Net Income decreased by -43% and -73% respectively.
- An escalation in Net Debt/EBITDA from -23.8% to 273.4% (FY-2020 - FY-2022) signals an increasing reliance on debt, necessitating a robust debt management strategy to mitigate potentially rising financial risks.

### Business Risk Highlights

- Industry:** The Food Retail industry, encompassing a wide array of entities from supermarkets to specialty stores, is a substantial sector with a global market size of USD 8.77 trillion in 2020, expected to grow at a CAGR of 3.5% from 2021 to 2028.
- Competitive Landscape:** Profitability faces pressure from competitive pricing in a fragmented market with both major and local players. BestNest has a very loyal customer base (24+ years in business), and probably the deepest, year-round product variety within their niche-segment. Hence, they are somewhat on their own little island, with limited competition within their segment.
- Governance and Management:** The company has 3 key individuals, next to Ben Krieger (who himself is also involved in the entity's operatoins), that can run the business. They have made several bolt-on acquisitions along the value chain in the past 1-2 years, increasing their margin, and reducing supply-chain-risks.
- PE Sponsor:** n/a