

Torrent Photonics LLC (includes Salvo Technologies LLC)



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1 year PD
1.89% to 3.18%

- Elevated, yet improved Leverage (5.5x to 3.3x). Low liquidity KPIs balanced by a ~\$4.0mn RC-availability.
- Strong in optics within their niche, yet vulnerable customer concentration (e.g. defense sector.)
- PE-backing by two smaller firms with limited track record.

- Strengths
- Specialized Expertise:** Strong focus on precision optics and imaging solutions, with technical mastery in optical engineering, crucial for defense and commercial applications with limited competition in their niche.
 - Innovative Product Lines:** Diverse range of products including optical systems, components, and spectral imaging, aligning with industry demands and technological advancements. Working on further diversification.
 - Vertically Integrated Manufacturing:** Enhances control over production quality and timelines, providing a competitive edge in fulfilling specialized and mission-critical orders (e.g. highly independent from suppliers).
- Challenges
- High Leverage:** Net Debt/EBITDA ratio is fairly high at 3.3x, due to a comparatively high debt burden relative to earnings. The anticipated acquisition of a UK-entity will relieve that situation given the vast majority of that purchase will be funded through SLB and new equity-investments.
 - Customer Concentration:** Significant reliance on DoD prime contractors, posing risks associated with customer concentration in the defense sector. The entity is working on improvements in that segement, which includes the acquisition of the respective entity in the UK.
 - Operational Efficiency Concerns:** High EBITDA margin(as-is) of 17.3%, will improve further following the acqusition of the UK entity to 20.7%). Additional support comes from cost reduction effort by Torrent.

Scorecard Summary (Proforma)

	Weight	Score	Dimension	Contribution
Financial	20%	4.3	Liquidity	
			Leverage	
			Profitability	
Business	80%	6.0	Industry Risk	
			Competitive Position	
			Mgmt / Governance	
			Sponsor / Parent	
Modifiers		-0.5	Revenue Segment	
			Trend Analysis	
			Financial Flexibility	
			Financial Transparency	

Industry Benchmarks - Primary: Electronic Equipment and Instruments

Company Overview

Headquarters	Tampa, FL	U.S.
Type	Private (PE)	
Employees	n/a	
Year Founded	2007	
Website	https://torrentphotonics.com/	
Business	Develops precision optics and imaging devices.	
Revenues	\$56.6M	

- Company Overview:** Torrent Photonics, LLC is a specialized manufacturer in the field of precision optics and imaging devices, primarily serving the defense and commercial sectors. The balance in revenue (1/3) comes from Salvo Technologies focused on fire control optics (firearms).
- Product:** The company offers a range of products including optical systems, lenses, prisms, spectral imaging devices, and defense solutions, catering to specific and demanding requirements.
- Customers:** Mainly serves DoD prime contractors, along with commercial customers in life sciences, medical devices, and semiconductors.
- Ownership:** Operates as a vertically integrated manufacturer in the U.S. The entity was jointly acquired by TidesCap and DBHCAP in 5/2022 and subsequently rebranded from Salvo Technologies Inc. to Torrent Photonics.
- PROFORMA:** The 2024 proforma is based on the tenants budgeted financials. In addition to that we incorporated the projected 2024 revenue, OPEX, CAPEX, and EBITDA affiliated with the UK-entity that they are about to acquire. The purchase is financed through the SLB, additional equity, and a Seller Note (\$1.5mn). The latter, as well as an annual \$1.5mn earn-out has been incorporated in the proforma. A year-1 SLB-rent of \$650k has been added to the expenses. Cash was reduced by \$300k due to a pending lawsuit vs State of NY (Salvo Tech). Aside from some financial reconciliation issues, we had a very detailed and overall positive call with the entity, including PE-sponsors which is equally reflected in this assessment.

Financial Ratio Benchmarking (Proforma)

# of Benchmarks:	30	Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	2.66	2.10	36%
	Quick Ratio	1.98	0.91	22%
Leverage	Net Debt / EBITDA	(0.07)	3.31	20%
	Debt to Assets	10.8%	36.0%	20%
Profitability	EBITDA Margin	7.9%	20.7%	88%
	ROCE %	8.3%	11.2%	54%
	Revenue	\$40M	\$57M	

- Current (2.1) and Quick Ratio (0.9), are below industry peers, indicating potential liquidity challenges, countered by ~\$4mn RC-availability.
- Debt to Assets ratio at 32.6%, is >3x higher vs peer median, reflecting a heavier reliance on debt financing and lower financial flexibility.

Financial Statement Highlights

\$ '000s	PROFORMA			
	Dec-22 T12	Dec-23 T12	Dec-24 T12	Chg
Income Statement				
Total Revenue	46,655	41,368	56,606	36.8%
Gross Profit	29,113	22,487	31,631	40.7%
Adjusted EBITDA	12,963	7,168	11,699	63.2%
Gross Profit Margin	62.4%	54.4%	55.9%	+152 bps
EBITDA Margin	27.8%	17.3%	20.7%	+334 bps
Balance Sheet				
Cash And Cash Equivalents	2,974	1,104	2,812	154.7%
Total Current Assets	2,974	21,253	22,996	8.2%
Total Assets	2,974	125,943	115,470	-8.3%
Total Current Liabilities	-	13,366	10,969	-17.9%
Total Debt	34,045	41,036	41,567	1.3%
Total Equity	-	41,867	64,247	53.5%
Cash Flow				
Net Income	8,767	(17,232)	(6,838)	-60.3%
CAPEX	-	-	-	
Depreciation & Amortization	-	-	-	
Fixed Charge Coverage Ratio	1.80x	0.24x	1.64x	+1.4x

- Following a declining Revenue from \$46.7mn to \$41.4mn (FY-22 to FY-23), the acquisition of a UK-entity and organic growth are projecting a 36.8% grwoth over FY-23. Gross Profit and Margins are equally set to improve across the board.
- Net Loss is slated to reduce by 60% to -\$6.8mn, which is mainly driven by a non-cash charge-off in Goodwill by \$9.4mn.
- FCCR will likely recover from 0.36x, to >1.0x.

Business Risk Highlights

- Industry:** Operates in the highly specialized segment of precision optics, requiring constant innovation and adaptation. The US photonics market was valued at \$111bn in 2023, and is expected to reach a CAGR of 6.9%, reaching 160bn by 2029.
- Competitive Position:** Strong focus on defense and high-tech sectors, but faces risks due to customer concentration and market volatility - both they are working on to improve.
- Management:** Management's continuation to lower leverage, address liquidity challenges, and improve operational efficiency are crucial for long-term stability.
- PE Sponsor:** TideCap (founded in 2014) by Mr Mackay participated in 12 transactions to date, currently invested in 3 private enterprises. DBHCAP (founded in 2020) by Desmond Henry is currently only invested in Torrent Photonics. Both entities seem to be ran by one individual each, which, combined with a limited track record under their own flag, may have limited financial capabilities. Yet, their respective commitment and motivation might be much higher, given the relative importance. The PE-sponsors actually provide additional capital in support of the entity's acqusition of a UK-entity.