Thaler Machine Holdings, LLC and Subsidiary (Thaler Machine Company, Inc.) - FY-24 & Proforma

B+ *1 year PD* **0.60% to 1.89%**

- Following a sharp decline from FY-21 to FY-23, they took a turn in FY-24, with Net Income growing by $8.1mn, EBITDA Margin jumping by 19 points, and a substantial backlog.
- Despite a positive outlook, no proforma balance sheet was available, yet our assumptions are conservative. They do have an unused secured $4mn R/C-line, for additional liquidity.

Strengths

- **Advanced Capabilities & Risk Mgmt:** Thaler specializes in ultra-precision machining and high-tech processes making them a crucial supplier for the aerospace and defense industry, even though they recently took a primary focus on defense (e.g. Excalibur, Project X). Their Risk Management is sophisticated, with customers paying 100% of material costs upfront, limiting w/c-requirements.
- **Demand & Backlog:** They operate in relatively inelastic markets with high barriers to entry, ensuring consistent demand despite broader economic fluctuations. With a backlog through 2027 ($110.7mn), nearly $70mn in follow-on contracts, and just about $200mn in their sales pipeline, of which about half is in a fina, or negotiations-stage for contracting, they seem to have a prosperous future ahead.
- **Liquidity:** With $16.6mn in PP&E and an overall asset base of $48.7mn in FY-23, the company is well-capitalized for future operational needs - securing a currently unused $4mn R/C-line. Cognitive is very influential and actively driving growth, including hiring the right talent and equipment for it as evidenced by FY-24.

Challenges

- **High Leverage:** Net Debt/EBITDA (1.6) is still much higher than the peer median of 0.55, indicating significant financial risk and a burden on cash flow.
- **Limited Liquidity:** Current and quick ratio of 1.56/0.61 in FY-24 are well below peer medians (2.96/1.57), signaling short-term financial strain (based on FY-23).
- **Customer Concentration Risk:** Per FY-23 two clients were jointly behind 78% of their entire revenue, wich creates vulnerability, although it is rather common in the defense industry. Nevertheless, it could significantly impact revenue stability.

Company Overview

Headquarters	Springboro, OH
Type	Private (PE)
Employees	100-200
Year Founded	1952
Website	https://www.thalermachine.com/
Business	Precision components for aerospace and defense industries.
Revenues	$53.9M

- **Company Overview:** Manufacturer of complex, mission and flight-critical components to the missile defense and aerospace engine markets.
- **Product:** Offers high-precision missile actuator components, aircraft engine parts, and guidance system elements using cutting-edge processes like 3D metal printing.
- **Customers:** Serves leading defense and aerospace OEMs, including Lockheed Martin, Raytheon, and GD, which demand strict quality and performance standards.
- **Ownership:** Acquired in 3/2020 by Cognitive Capital Partners ("CCP") and PNC Mezzanine Capital, who provide strategic direction and financial backing. CCP was founded in 2006, had 9 acquisitions to date, no institutional investors.
- **Debt Structure:** Majority of mezz debt is due on 2/26 to PNC ($12.1mn, on accrual, non-amortizing i/o loan). The balance of debt is due in 2027. All loans (excluding leases) were ear-marked with a note that the maturity dates would be up to review.
- **PROFORMA:** FY-24 financials are based on T9 income statement, complemented by a 3 month projection by the tenant and the as-is FY-23 b/s and c/f-statement. Due to the limited transparency/quality we applied a 0.5-penalty to the actual rating calculated. The FY-25 proforma, which computed (all else equal) to a 6.0 rating, is based on several assumptions; (i) SLB-price of $5.5mn (low est.), and net proceeds of $4.67mn, (ii) 50% of proceeds were applied to debt, the balance to cash, (iii) removed deferred revenue, (iv) lower projected revenue between OM and additional presentation provided, (v) COGS in line with tenants projection, (vi) doubled OPEX to FY-23, despite growth in revenue by just 79%, (vii) reduction of assets by book-value of subject property, (viii) deducted 30% income tax, (ix) reduced interest expense - pro rate to reduction in debt.

Financial Statement Highlights

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$ '000s	(C) Dec-23 T12	(B) Dec-24 (A) T12	(A) Dec-25 (P) T12	Change (C) to (B)	Change (B) to (A)
Income Statement					
Total Revenue	19,930	30,127	53,860		78.8%
Gross Profit	2,010	8,027	14,430		79.8%
Adjusted EBITDA	750	6,848	9,582		39.9%
Gross Profit Margin	10.1%	26.6%	26.8%		+15 bps
Net Income	(4,557)	3,576	2,895		-19.0%
Balance Sheet					
Cash And Cash Equivalents	7,039	7,039	9,375		33.2%
Total Current Assets	21,957	21,957	24,294		10.6%
Total Assets	48,653	48,653	46,675		-4.1%
Total Current Liabilities	14,083	14,083	4,203		-70.2%
Total Debt	18,100	18,100	15,764		-12.9%
Total Equity	17,781	17,781	17,781		0.0%
Key Ratios					
Current Ratio	1.56	1.56	5.78		270.7%
Quick Ratio	0.61	0.61	2.59		326.5%
Net Debt / EBITDA	14.75	1.62	0.67		-58.7%
Debt to Assets	37.2%	37.2%	33.8%		(343) bps
EBITDA Margin	3.8%	22.7%	17.8%		(494) bps
ROCE %	-7.8%	12.4%	16.4%		+396 bps

- Revenue is slated to increase from $19.9mn (FY-23) to $53.9mn in FY-25, a 170% jump, and the consequence of higher throughput, Project X, and severe sales efforts in FY-24.
- Due to rather conservative assumptions (vs tenant) we project a dip in Net Income by -19%, as a result of their dramatic growth, which will likely require further investments.
- Increase in cash is driven by adding 50% from SLBs net proceeds, balance reduces debt.

Scorecard Summary

Financial vs Business Risk Weighting Factors

Ownership	Private (PE)
Company Stage	Growth
Financials	Complete (Unaudited)

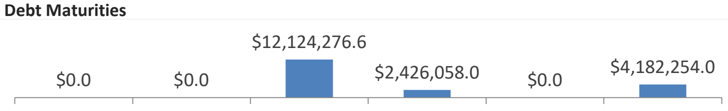
	Weight	Score	Dimension	Weight	Score
Financial	30%	4.9	Liquidity	35%	*2.3*
			Leverage	33%	*1.4*
			Profitability	33%	*2.4*
Business	70%	6.4	Industry Risk	15%	*5.5*
			Competitive Position	35%	*6.8*
			Mgmt / Governance	15%	*7.0*
			Sponsor / Parent	35%	*6.2*
Modifiers		-0.4	Revenue Segment		*(0.6)*
			Trend Analysis		*0.50*
			Financial Flexibility		*0.25*

Financial Benchmarking & Debt Maturity Profile

# of Benchmarks:	*20*	Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	2.39	1.56	*24%*
	Quick Ratio	1.36	0.61	*14%*
Leverage	Net Debt / EBITDA	0.55	1.62	*45%*
	Debt to Assets	16.9%	37.2%	*28%*
Profitability	EBITDA Margin	11.8%	22.7%	*79%*
	ROCE %	11.0%	8.4%	*39%*
	Revenue	$29M	$30M	

Industry Benchmarks - Primary: Broadcasting

Debt Maturities



Business Risk Highlights

- **Industry:** The aerospace and defense sectors are subject to geopolitical tensions and government budget decisions, affecting revenue predictability. Functional obsolesence in times of an increased focus on drones, and cost-efficiencies per hit, were discussed. Project X is the future of air-to-air combat missiles, which is of strategic importance to the US, and global stock in Excalibur missiles are depleted. The U.S. aerospace and defense (A&D) industry had an estimated market size of ~$500bn (2024), projected to reach ~$650bn by 2029, reflecting CAGR) of 5.8%
- **Competitive Position:** Advanced manufacturing capabilities and strong client relationships set the company apart but expose it to risks if clients switch suppliers or reduce demand. Inelastic demand, high level of barrier to market entry, steeply improving operational efficiency to meet and exceed peers (see proforma).
- **Management:** The acquisition by Cognitive Capital Partners and PNC Mezzanine Capital may influence financial and strategic decisions, especially in addressing high leverage. To address operational inefficiencies they hired a new CEO, new CFO, and two new VPs in BD and Operations supplemented by more investments into machinery to increase throughput as well as improving in-house growth capabilities/expertise.