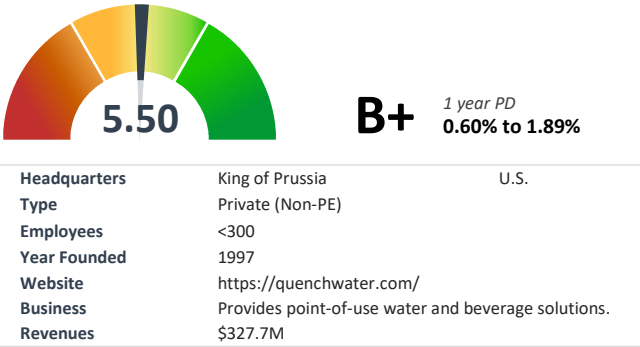


Quench USA, Inc (sub of Culligan, owned by BDT Capital)



Company Overview

- Company Overview:** Quench USA, Inc. is a leading provider of Water-as-a-Service (WaaS) solutions. The company specializes in renting and servicing point-of-use (POU) filtered water systems.
- Product:** The entity offers water coolers, ice machines, sparkling water dispensers, and coffee brewers with advanced filtration technologies.
- Customers:** Quench serves a broad array of clients, including small businesses and over half of the Fortune 500 companies, spanning industries like healthcare, manufacturing, and professional services.
- Ownership:** They operate as a subsidiary of Culligan Water, acquired through its parent, AquaVenture Holdings, in 2020. Culligan on the other hand is owned by BDT Captial Partners.
- Debt Structure:** N/A - not provided during this assessment.
- Other (pros/cons):** Debt-to-assets (82.8%), with the vast majority of Assets being comprised of Goodwill and IP, constraints their borrowing capacity. Net Leverage (2.3) is ~40% below the peer median. Exceptional EBITDA margin (59.8%) and overall growth y-o-y. A low quick ratio (0.82) highlights liquidity reliance on inventory, whilst we don't know more about their debt structure (e.g. R/C-line). They are pursuing an M&A growth strategy, which explains the rapid growth in FY-23. CEO Tony Ibargüen serves as chair of the board at the FRB in Philly. In 2023 Moodys' assigned a 'B3'-rating on a senior secured debt issuance (\$950mn) by Culligan (parent). Yet, this assessment looks at Quench in isolation, excluding parental support or PE-backing. We found some BBB-complaints and litigated contract disputes indicating potential concerns about operational risks and customer retention issues. Industry CAGR is ~7.0% through 2028.

Financial Snapshot

| | | Dec-22 | Dec-23 | Chg |
|---------------------|------|---------|---------|---------|
| \$ '000s | T12 | T12 | T12 | % |
| Total Revenue | #N/A | 201,280 | 327,701 | 62.8% |
| Gross Profit | #N/A | 108,421 | 190,247 | 75.5% |
| Adjusted EBITDA | #N/A | 106,712 | 195,997 | 83.7% |
| Gross Profit Margin | #N/A | 53.9% | 58.1% | 4.2 ppt |
| EBITDA Margin | #N/A | 53.0% | 59.8% | 6.8 ppt |
| Net Income | #N/A | 25,138 | 52,752 | 109.8% |

| | | Weight | Rating Range | | |
|--|--|--------|--------------|----|-----|
| | | 40% | 5.5 | to | 6.5 |

| | | | | | | | | |
|------------------|-------------------|--------|-----------------|----------------|-----------------|--|--|--------|
| # of Benchmarks: | | 37 | Industry Median | Company Metric | Percentile Rank | # of Industry Benchmarks | | 37 |
| | | | \$352M | \$328M | | Company Financials Date | | Dec-23 |
| Liquidity | Revenue | | | | | Industry Benchmarks - Primary: Environmental and Facilities Services Secondary: Household Products | | |
| | Current Ratio | 1.57 | 1.64 | <div></div> | 57% | | | |
| Leverage | Quick Ratio | 1.14 | 0.82 | <div></div> | 27% | | | |
| | Net Debt / EBITDA | 3.91 | 2.32 | <div></div> | 67% | | | |
| Profitability | Debt to Assets | 41.6% | 82.8% | | | | | |
| | EBITDA Margin | 12.2% | 59.8% | <div></div> | 100% | | | |
| | | ROCE % | 8.9% | 9.3% | <div></div> | | | |

Business Risk

| | | 60% | 7.0 | to | 8.0 |
|-------------------------------------|--|---------------|--------------|---|-----|
| Industry Group Risk Profile | | 20% | 6.5 | to | 8.0 |
| Industry Risk Assessment | | KPI Rating | Contribution | Industry Group Description | |
| Cyclicality | | Low risk | <div></div> | Entities that derive a majority of their revenue from the collection, treatment, transportation, and disposal of various waste streams. | |
| Competitive Risk | | Low risk | <div></div> | | |
| Global Industry | | Low risk | <div></div> | | |
| Market Segment Outlook | | Above Average | <div></div> | | |
| Competitive Position Profile | | 50% | 7.0 | to | 9.0 |
| Competitive Position KPIs | | KPI Rating | Contribution | Rating Guideline | |
| Cycle-Tested | | < 2000 | <div></div> | Navigated multiple economic down-cycles. | |
| Market Position | | Strong | <div></div> | Favorable market position with barriers to entry, ability to integrate services into customer's operations. | |
| Scale and Scope | | Strong | <div></div> | Operates in various attractive markets with superior scale. | |
| Brand Equity and Reputation | | Above Average | <div></div> | Good brand with some ability to command a price premium. | |
| Business Strategy | | Above Average | <div></div> | Mostly consistent strategy with minor areas for improvement. | |
| Customer & End-Market Diversity | | Above Average | <div></div> | Good customer diversity; limited reliance on specific customers. | |
| Service Diversity | | Strong | <div></div> | Offers a wide range of services that cater to diverse customer needs. | |
| Geographic Diversity | | Above Average | <div></div> | Moderate geographic diversification. Some dependence on specific regions. | |
| Technological Integration | | Above Average | <div></div> | | |
| Management, Governance, Sponsorship | | 30% | 6.0 | to | 8.0 |

Anchor Modifiers

| | | | |
|------------------------|------------|-------------|---|
| Modifiers | | | |
| Financial Transparency | Risk Flag | <div></div> | Partial |
| Trend Analysis | Adjustment | <div></div> | Strong Positive |
| Financial Flexibility | Adjustment | <div></div> | Limited |
| Other Modifier | Risk Flag | <div></div> | No Notes to Financials (-0.25), Some smaller gaps and/or inconsistencies in the financials provided - see emails from Rohit (-0.25) |

Rating Range (Rounded)

| | | |
|-----|----|-----|
| 5.0 | to | 5.5 |
|-----|----|-----|