



BUSINESS DESCRIPTION

Our Client has been providing premium high performance hair styling tools to complement the modern woman's lifestyle for over 15 years. Prior to our Client penetrating the market, most hair styling devices were of lesser quality and priced low. Astute marketing and packaging, coupled with a gap in product quality, enabled our Client to penetrate and establish a profitable niche in the industry. The Founder built the brand by selling product to prestigious beauty shops, garnering endorsements by celebrity hairdressers who used the products, and concentrating sales with top retailers such as Nordstrom & Bloomingdales. The Company offers over 15 core models and introduces 2-5 new products each year. Product is sold in over 1,500 retail locations as well as on Amazon. Based on a quality reputation, online DTC sales increased to over 30% of total sales during the past 6 years.

Product is contracted and manufactured in China. Despite the COVID pandemic, these suppliers maintained a constant flow of product to our Client which enabled sales to remain above \$100MM. The overall market is significant, with industry sales for 1H2023 totaling \$789MM of which our Client's share is less than 10%. Competition for the Company is larger brands, which primarily sell to the mass market, whereas our Client's products are targeted at consumers willing to pay more for better quality products. Our Client competes based on its established unique design, best-in-class styling, performance and brand awareness/loyalty. It does not compete based on price which results in strong margin generation.

In mid-2022, a major customer representing over 30% of sales unexpectedly discontinued its relationship and substituted a competing product. Management rapidly resold returned SKUs, repurposed components with no loss, and maintained strong margin generation. Additionally, management quickly reduced annualized OpEx by over \$7MM.

TRANSACTION SUMMARY

Our Client is seeking to secure a new \$15MM asset-based LOC, primarily backed by high quality A/R and inventory assets, to refinance incumbent debt provided by a bank lender. The new loan will also be collateralized with IP to secure any necessary over-advance (subject to a nearly completed inventory appraisal). The Company's sole stakeholder will also be contributing ~\$2.5MM of capital to the Company to effectuate the transaction. Once the refinancing is complete, forecasted borrowing levels will remain low as the Company resumes positive monthly profitability in 2H2023. Below is pro forma as of December 2023, when outstanding debt will be ~\$11MM.

\$ in Thousands

Sources		Adv. %	Avail.
Eligible Net A/R	\$4,830	90.0%	\$4,347
Eligible Inventory	\$6,748	60.0%	\$4,049
Owner Sub-Debt	\$2,500		\$2,500
IP Term Loan/OA	\$1,500		\$1,500
Cash on BS	\$1,645	100.0%	\$1,645
Total	\$17,223		\$14,041

SELECT TRANSACTION HIGHLIGHTS

1 Strong Margins & Brand Awareness

- Product consistently sells out each year which is appealing to existing retailers & keeps dilution low
- New products reinforce favorable brand image
- Growth in e-commerce sales channel (Amazon & DTC) diversifies reliance on retailers and confirms brand awareness
- Having a known national brand and market niche avoids need to compete based on price which enables consistent margin generation of over 60%
- Returned inventory from previous largest customer was rapidly sold and earned comparable margin

2 Improving Collateral Position

- Top customers include Amazon, Nordstrom, Sephora, & Ulta
- Holiday inventory has been ordered and the proportion of A/R to inventory improves during the balance of 2023
- Founder investment of \$2.5MM strengthens balance sheet, boosts liquidity, and near-term profitability

3 Turnaround Plan Yields Rapid Return to Profitability

- Turnaround plan reduced annual OpEx by over \$7MM
- Monthly sales of \$6MM - \$8MM combined with 60%+ margins and lower monthly OpEx to rapidly yield monthly profitability for the balance of 2023
- Overhead rightsized for ~\$60MM-\$70MM net sales
- Possible accumulation of returned inventory due to loss of largest customer was profitability mitigated
- Outstanding A/P aging report is clean with minimal amounts aged over 60 days

\$000's	2021	2022
Net Sales	101,190	86,154
Net Income	3,719	67

\$000's	YTD Jun-23	2H23	FYE 2023
Net Sales	22,476	34,804	57,280
Net Income	(1,776)	3,232	1,456

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