PROJECT INSIGHT

$3.0MM LINE OF CREDIT

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BUSINESS DESCRIPTION

Our Client (the "Company") is a publisher that has been operating for 55 years. The Company is engaged in the publication and sale of books covering educational and evergreen content, cooking, and children's books. In addition, it cross-sells gift items such as tote bags branded to complement the book's subject matter. Educational book sales represent 30% of total revenue; 70% is sourced from non-educational content & gift sales. The Education segment sells over 180,000 books and digital licenses annually to more than 500 schools that often prefer to purchase from smaller publishers over significantly larger competitors. Non-educational books and gift items are sold through Amazon, chain bookstores, wholesalers, and local book and gift stores.

Digital book sales are increasing, driven by the rising global demand for digital subscriptions at schools. The digital license for a physical book that sells for $54.95 is $12.99/student/year. The average life of a book ranges between 7-8 years. Digital books are more profitable as a 7-year subscription can yield ~$90.93 as compared to $54.95. Moreover, COGS is lower as a digital book does not have to be printed.

Digital subscriptions are paid in full upfront; however, revenues are recognized proportionally over the subscription period pursuant to GAAP. While sales continue to increase, profitability has not increased proportionally due to accounting rules. Our client cannot record full gross profit upfront despite receiving full payment upfront. This has resulted in a substantial increase in deferred revenue beginning in FY21.

Our Client is owned by an ESOP. The founders sold 50% of the Company to the employees in 2015 and the balance in 2022.

TRANSACTION SUMMARY

Our Client is seeking a $3MM working capital line of credit to refinance an outstanding LOC totaling ~$2.0MM. The LOC will be primarily secured with AR totaling $2.7MM and $6.6MM of Inventory. Due to higher digital sales, operating losses were recorded, prompting the current bank to require our Client to refinance the LOC.

Financial Highlights

	FY-end February 29th		FY-end December 31st		
$000s	**FY '21**	**FY '22**	**MAR-DEC '22***	**FY '23**	**FY '24**
Total Revenue	$12,696	$16,191	$18,455	$17,439	$20,530
Gross Profit	7,081	$9,031	$11,968	$9,816	$12,179
Gross Margin	*56%*	*56%*	*65%*	*56%*	*59%*
GAAP EBITDAR[1)]	131	10	829	(1,228)	1,156
Pro-Forma EBITDAR[2)]	**$1,533**	**$746**	**$3,215**	**($1,133)**	**$1,927**
Net Income	**$303**	**$262**	**($133)**	**($1,558)**	**$530**

*In March 2022, the fiscal year-end changed from February 29th to December 31st

1) "R" in EBITDAR is a non-cash retirement expense for the ESOP

2) Pro-Forma EBITDAR adds back deferred revenue for subscription sales

Due to GAAP accounting rules, our Client cannot record all gross profit upfront for licensed digital books even though it receives the sale price upfront & in full. If it recorded the gross profit upfront, Non-GAAP EBITDAR would increase to $1MM in FY21, $746K in FY22, and $3.2MM in the partial year 2022

Balance Sheet Highlights

	FY-end February 29th		FY-end December 31st		
$000s	**FY '21**	**FY '22**	**DEC '22**	**FY '23**	**FY '24**
Total Assets	$11,308	$11,684	$17,346	$16,817	$16,754
Total Liabilities	5,929	5,858	13,228	14,073	13,378
Adj. Net Worth*	$7,247	$7,764	$8,114	$6,630	$7,889

*Net Worth adjusted to add back Deferred Revenue

Deferred Revenue is not an actual liability. It will grow due to GAAP rules and represents unrecognized gross profit from rising digital book sales.

Solid Collateral Position

Of total sales, 70% are sourced from physical books and gifts; 30% are from digital sales. AR associated with digital book invoices can be readily identified. The combination of outstanding AR & Inventory significantly exceeds outstanding LOC borrowings. Current AR predominantly includes standard invoices. Invoices for digital sales rapidly rise and decrease during the summer/early fall sales period.

Estimated Closing Sources & Uses Table

$000s

Sources		**Adv.**	**Available**	**Uses**	
AR	$2,650	85%	$2,253	Refinance Bank LOC	$1,978
Inventory	6,633	60%	3,980	Min Excess Availability	450
				Fees and Excess WC	572
			$6,233		**$3,000**

TRANSACTION TEAM

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