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Compass Diversified Holdings, Inc. (CODI)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to Compass Diversified's Third Quarter 2021 Conference Call. Today's call is being recorded. All lines have been placed on mute. [Operator Instructions]

At this time, I would like to turn the conference over to Matt Berkowitz of The IGB Group for introductions and the reading of the Safe Harbor statement. Please go ahead, sir.

Matthew Berkowitz
Director, The IGB Group

Thank you, and welcome to Compass Diversified's third quarter 2021 conference call. Representing the company today are Elias Sabo, CODI's CEO; Ryan Faulkingham, CODI's CFO; and Pat Maciariello, COO of Compass Group Management.

Before I begin, I'd like to point out that the Q3 2021 press release, including the financial tables and non-GAAP financial measure reconciliation, are available at the Investor Relations section on the company's website at www.compassdiversified.com.

The company also filed its Form 10-Q with the SEC today after the market closed, which includes reconciliations of non-GAAP financial measures discussed on this call, including adjusted EBITDA and cash available for distribution, and is also available at the Investor Relations section of our website.

Please note that references to EBITDA and the following discussions refer to adjusted EBITDA as reconciled to net income in the company's financial filings. The company does not provide a reconciliation of its full-year expected 2021 adjusted EBITDA or 2021 payout ratio because certain significant reconciling information is not available without unreasonable efforts.

Throughout this call, we will refer to Compass Diversified as CODI or the company. Now, allow me to read the following Safe Harbor statement.

During this conference call, we may make certain forward-looking statements, including statements with regard to the future performance of CODI and subsidiaries, and statements related to the impact of CODI's updated tax structure and the impact and expected timing of acquisitions and dispositions. Words such as believes, expects, plans, projects and future or similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to the inherent uncertainties in predicting future results and condition. Certain factors could cause actual results to differ on a material basis from those projected in these forward-looking statements, and some of these factors are enumerated in the risk factor discussion in the Form 10-Q, as filed with the SEC for the quarter ended September 30, 2021, as well as in other SEC filings.

In particular, domestic and global economic environment is currently impacted by the COVID-19 pandemic and related supply chain disruption has a significant impact on our subsidiary companies. Except as required by law, CODI undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

At this time, I would like to turn the call over to Elias Sabo.

Elias J. Sabo

Partner, Chief Executive Officer & Director, Compass Diversified Holdings, Inc.

Good afternoon. Thank you all for your time, and welcome to our third quarter earnings conference call. I want to start by pointing out the momentous milestone that CODI achieved during the quarter. After over a year of analysis, preparation, documentation and communication that culminated with a shareholder vote, we elected to be treated as a C corporation for US federal income tax purposes. I want to thank our entire team for their tireless effort to get this election completed.

We are confident the benefits of this election will be profound and long-lasting, and we are already encouraged by the initial reaction in the market. We believe this change in tax structure will allow a wider audience of investors to access our company, provide a lower cost of capital, and give us more depth in our capital access.

With the lowest cost of capital among our peers, we believe we have built a competitive advantage in the marketplace that will be a key differentiator as we continue to seek opportunistic acquisitions and build leading businesses.

In September, we filed a prospective supplement with the SEC to enable share issuance under an at the market common share program. We believe this program offers an efficient and cost effective way for us to raise common equity capital to fuel our growth and build towards our goal of $1 billion in EBITDA. In pursuit of that objective, we have reconstituted our portfolio over the past three years to increase the company's core growth rate and provide a tailwind to meet our growth objectives.

That said, we are aware we need more than core growth alone. The second part of our business model and critical to us achieving our growth objective is by having a low cost, efficient way to access equity capital. To demonstrate this point, I would like to take a moment to review our capital allocation and capital raising decisions over the past few years.

In 2019, when asset prices favored divestment, we sold Clean Earth and Manitoba Harvest at record prices without deploying any capital. Late in 2019, we raised $115 million of equity capital through the issuance of Series C Preferred Stock. By the end of the year, our balance sheet was strong and we were ready to pounce on opportunities. With the strongest balance sheet in our company's history and record capital availability, we were then able to close on Marucci Sports and BOA Technologies in 2020, despite the far reaching implications of the COVID-19 pandemic.

To further strengthen our balance sheet during 2020, we also raised an additional $88 million of equity capital and $200 million of unsecured bonds. These capital allocation and capital raising decisions, although creating modest equity dilution, have allowed our growth rates and earnings power to materially accelerate. This is evidenced by the first nine months of this year, during which we have produced $135 million of cash available to distribute and reinvest or CAD. This is the highest amount of CAD ever produced in our company's history by a significant margin.

In 2021, we have continued to be active with capital raising and capital allocation decisions. Thus far, we have refinanced our unsecured debt to lower the interest rate by 2.75 percentage point or 34% from the original issuance rate, while at the same time, upsizing the offering by an additional $400 million to $1 billion. This series of decisions have put us in position to have the lowest cost of capital in our company's history, and we are set to continue leveraging our permanent capital structure to drive long-term shareholder value.

During the third quarter and subsequently, we announced a few key transactions. We closed on the divestiture of Liberty Safe; invested in Altor Solutions by adding on Plymouth Foam to strengthen Altor's status as an industry leader; acquired Lugano Diamonds and Jewelry, a new subsidiary that designs, manufactures and markets high end one of a kind jewelry; announced the execution of a definitive agreement to divest Advanced Circuits, our longest holding, which we expect to be closed in 2022, subject to satisfaction of closing conditions; and just recently, we made an acquisition to add Lizard Skins to Marucci, which will strengthen Marucci's leading position in diamond sports and offer an opportunity for expansion into new markets.

Taken together, this collection of transactions over approximately one quarter represents our approach to sustainably investing with our permanent capital model. One, we strategically acquire businesses poised for growth. Two, manage and build businesses with our resources and expertise. And three, divest opportunistically when it makes sense for all constituents.

The divestiture of Liberty Safe and the anticipated divestiture of Advanced Circuits in particular highlight an important advantage to our permanent capital business model. Both businesses were held for more than a decade, something nearly unheard of in the traditional private equity model. Over our ownership, we invested significant growth capital in both businesses. This is a core component of our sustainable investing model that is enabled by our permanent capital approach. At Advanced Circuits, we completed a number of add-on acquisitions and growth capital expenditures, the most recent of which upgraded its Arizona plant to become a world-class manufacturing facility.

At Liberty, while we only completed one add-on acquisition, we more importantly invested a significant amount of growth capital that enabled the company to dramatically expand its manufacturing capabilities and capture the revenue growth available to it as demand increased in 2020 and into 2021. Importantly, the ability to divest these businesses on our preferred timeline, and not required based on fund life, has enabled us to achieve a return on invested capital for Liberty that significantly exceeded our underwriting expectations and we expect a similar result for Advanced Circuits.

The platform acquisition of Lugano Diamonds and Jewelry is an exciting opportunity to bring a growing luxury goods brand to the CODI portfolio. We are pleased to partner with Moti and Idit Ferder as we seek to build Lugano into a global iconic jewelry brand.

When you look at this company closely, we believe it is clear that the Lugano model is disruptive to the jewelry industry. Lugano acquires blue stones and then designs unique, one of a kind pieces. However, these aren't just sold in stores. Lugano creates a bespoke selling experience in their retail salons, providing value to the customer with a streamlined, simple, and curated selling experience. We believe the addition of Lugano will be accretive to our growth profile over time. Lugano will require a significant investment in inventory and growth capital expenditures as we build unique salon in strategic markets around the country and internationally.

Now, turning to our financial performance, I'm pleased to report that our third quarter results were exceptional and once again exceeded our expectations. Throughout this presentation, when we discuss pro forma results, it will be as if we own BOA, Marucci, and Lugano, and divested Liberty from January 1, 2020.

On a pro forma basis, consolidated revenue grew approximately 18% and adjusted EBITDA grew approximately 19% over the prior year's quarter. I would like to highlight that our consolidated adjusted EBITDA margin remained approximately flat at 19.5% year-over-year. This is an incredible accomplishment and reflects the dedication of each of our subsidiary company management teams.

Our subsidiary teams have encountered numerous challenges unique to their businesses and the ongoing pandemic recovery. In particular, supply chain disruptions, lack of labor availability, and rapidly increasing inflation have created challenges never experienced before. For our companies to deliver nearly 20% top line growth with static year-over-year margins is a testament to the exceptional talents we possess at our subsidiary level.

Before I provide an update on our guidance, I want to reiterate that the macro environment remains uncertain and many of the challenges we have dealt with throughout the year are increasing with each passing quarter. Demand continues to remain robust throughout our portfolio. However, supply side challenges are extensive and increasing. There are significant parts shortages from our vendors, lack of available shipping capacity, issues with port congestion, and finally, a lack of trucking capacity. Our companies are performing admirably in dealing with these challenges. However, the current state of the supply chain is putting pressure on revenue growth and materially raising costs to create product availability.

Second, labor availability is scarce. Elevated open positions are suppressing revenue growth and labor costs are rising rapidly as a result. These factors, along with a significant increase in commodity costs, are causing our cost structure to increase rapidly. As a result, we have been forced to raise prices in order to protect margins. Thus far, we have found demand to be inelastic during these times as the veracity of demand has allowed us to raise prices without diminishing sales.

Notwithstanding these unique challenges and in light of our extraordinary year-to-date results and our expectations for the balance of the year, we now expect to produce pro forma consolidated subsidiary adjusted EBITDA of between $380 million and $390 million. This represents pro forma growth of approximately 30% to 33% from the prior year and an improved payout ratio of less than 55% based on our historic distribution rate of $0.36 per share each quarter.

To aid in our comparisons given the number of transactions that occurred in the quarter, I would like to walk through our guidance as compared to the prior quarter. Last quarter, we guided to adjusted EBITDA of between

$350 million and $370 million. Liberty Safe was expected to produce approximately $25 million in adjusted EBITDA, and included in our updated guidance is an expectation for Lugano to produce $35 million in adjusted EBITDA.

Thus, the net effect of the M&A transactions we completed were to increase our guidance by $10 million on a pro forma basis. This would have made last quarter's guidance range increase to $360 million to $380 million on a pro forma basis to include the acquisitions and divestitures. As you will see from this analysis, we are raising our guidance by $20 million on the bottom of the range and $10 million on the top of the range.

I would also like to take a minute to discuss our ongoing ESG efforts. We are pleased to announce that we have hired a new Head of ESG who will be starting with us on December 1. We believe this will allow us to accelerate our ESG initiatives at CODI level, while at the same time, leading the acceleration of initiatives across all portfolio companies.

I also wanted to highlight recent ESG success stories at two of our subsidiaries. First, at our Altor Solutions subsidiary, we experienced an increase in customer wins at our Rational Packaging minority investment. We are proud to highlight that our investment in Rational Packaging in September 2020 was crucial to commercializing their products, which are manufactured using recycled and environmentally friendly inputs and are 100% post-consumer recyclable.

In addition, at Altor, we continue to make progress towards the development of a fully curbside recyclable custom packaging product offering that we expect to have commercialized by 2022. We believe this initiative, along with Rational Packaging, will allow us to offer a robust suite of environmentally friendly products to our customers by mid-next year. We are incredibly proud of the Altor management team in working towards reducing our environmental impact.

Second, at Ergobaby, we expanded our Everlove program to Europe, which provides consumers with previously loved carriers. Ergobaby also published internally its first-ever Annual Impact Report, which will serve as a baseline across five important categories for the company to measure annually: sustainability; diversity, equity and inclusion; education and science; giving back; and people and policy. We are proud of Patty Rader and the entire Ergobaby team for taking leadership in this important area.

We continue to see compelling ESG opportunities across our subsidiaries that we believe will drive growth and increase profitability over time. And we look forward to having our new Head of ESG lead these efforts.

Before turning the call over to Pat, I want to say that I am also proud to announce that over the past 90 days, including post Q3, we have invested approximately $110 million in growth capital at our subsidiaries through add-on acquisitions and growth capital expenditures. These investments are a continuation of the sustainable investing we are afforded under our permanent capital and we believe these investments provide tangible benefit to our constituents. Our employees benefit from enhanced opportunities, our communities benefit from increased employment, and our shareholders benefit from the synergy and return on invested capital we expect to achieve.

With that, I will now turn the call over to Pat.

Patrick A. Maciariello

Partner & Chief Operating Officer, Compass Diversified Holdings, Inc.

Thanks, Elias. Before I begin on our subsidiary results, I want to talk generally about the industry trends we saw throughout the quarter. We believe our branded consumer businesses continue to be well-positioned to benefit from the changing consumer landscape. With the exception of Ergobaby, which had a COVID-related shutdown at its Vietnamese manufacturing partner, each of these businesses exceeded our expectations in the quarter. As a group, our niche industrial businesses also performed above expectations.

As Elias mentioned, all of our subsidiaries continue to experience significant increases in costs in the quarter, and all of them faced some supply chain disruptions. Though these disruptions will continue in the fourth quarter, our management teams continue to demonstrate the ability to adjust on a real-time basis with the fluid conditions. Because of their adept work, we believe CODI as a whole is comparatively well-positioned to weather this challenging season.

Now, on to our subsidiary results. I'll begin with our niche industrial businesses. In the third quarter of 2021, revenues increased by 14.1%, EBITDA increased by 8.8% versus the third quarter of 2020. On a year-to-date basis, revenues increased by 13.8% and EBITDA increased by 9.6% versus 2020. For the year-to-date period, revenue and EBITDA at Advanced Circuits were approximately flat as compared to the first nine months of 2020. Backlog across the company's three facilities is at near record levels as bookings significantly outpaced billings due to continued parts shortages, particularly in the company's assembly business unit.

Arnold Magnetic's revenues increased by 33.3%, EBITDA increased by 107% to $16.5 million in the first nine months of 2021 as compared to the prior year. Notably, we acquired Ramco on March 1 of this year and their performance is included in our financials since that time. The majority of this increase was driven by organic growth following 2020's COVID depressed demand levels across commercial aerospace and industrial customers. While Arnold has exceeded our expectations for the year-to-date period, we anticipate supply chain issues being a headwind for the company during the fourth quarter.

Outdoor Solutions revenue grew by 37.2% and EBITDA grew by 8.1% in the year-to-date September 2021 period compared to the same period of 2020, meeting our expectations. Margins continue to be under pressure in the third quarter due to significant increases in the company's core raw material. As we mentioned last quarter, margins also continued to be impacted by the acquisition of Polyfoam in Q3 of 2020, which carries lower margins. We expect margins to improve for Outdoor over time, but believe we will experience some margin volatility from quarter-to-quarter as Outdoor manages both rapidly changing raw material prices and delayed contractual pass-throughs.

The Sterno Group's year-to-date 2021 revenue increased by 3.6% and EBITDA declined by 6.2%, respectively, versus year-to-date 2020. Though we have seen foodservice demand improve year-to-date, COVID precautions taken as a result of the Delta variant in Q3 did slow that recovery. Last quarter, we mentioned that Sterno was exiting a lower margin product line that the company would experience approximately $5 million of related restructuring expenses. About half of those expenses were realized in Q3 and are included in the year-to-date EBITDA figures referenced. Sterno continues to see solid demand for its line of wax and essential oil products, and this business segment continues to make a positive contribution to the Sterno Group.

Now, turning to our branded consumer businesses, which, as a group, experienced another exceptional quarter. Our results are presented as if we owned Mariucci, BOA and Lugano in January 1, 2020. For the quarter, the majority of our six branded consumer businesses exceeded our expectations and experienced significant growth. As a group, revenues increased for the quarter by 21.2%, EBITDA increased by 24.1% versus year-to-date period in 2020. On a year-to-date basis, revenues increased by 34% and EBITDA increased by 63.7% versus 2020.

BOA's year-to-date revenue increased by 55.5% versus the comparable period in 2020. Year-to-date EBITDA increased by 89.3% to $46.3 million versus the comparable period in 2020, exceeding our expectations. BOA continued to experience strong demand across most of its categories, led by athletic, workwear and snow customers. This quarter, the company experienced broad demand across brand partners and geographies and made several key senior hires and promotions, positioning the company for future success.

In addition, BOA continues to make strides in product development. As we mentioned last quarter, we believe that some portion of BOA's exceptional growth stems from partners ordering ahead with the supply chain constraints. Regardless, we believe the company remains well-positioned to grow market share.

We remain excited about BOA's future and continue to be impressed by the company's management team. During the quarter, BOA successfully repurchased outstanding BOA shares [ph] that made (00:23:25) significant minority shareholder valued at $48 million. As a result of this repurchase, CODI's primary ownership percentage in BOA increased 92.7%.

Ergobaby's year-to-date 2021 revenue increased by 16.8% over the same period in 2020. Year-to-date EBITDA increased slightly to $13.9 million. Company continued to have solid demand growth. However, it experienced significant supply chain disruptions in the quarter. One of its large Southeast Asian manufacturing partners, the operations were halted for a significant period of time due to COVID restrictions. Normal operations have resumed and we are working closely with our partners to fill both prior month and current month's orders. We currently believe this will result in several million dollars of revenue shifting from Q3 to Q4, should result in stronger financial performance in Q4 versus 2020 levels.

Lugano continued its recent strong performance since our acquisition in early September. Year-to-date, revenues increased by 77.7% versus comparable period in 2020. Year-to-date, EBITDA increased by [ph] $13.6 million to $27.6 million (00:24:33) as the company benefited from growth in recently opened salon in new geographies. We're excited to partner with Lugano and remain impressed with the company's strategic vision and execution, as well as the artistic capabilities of their team. We believe there are numerous opportunities for geographic expansion and are opportunistic on the future of this brand.

Lastly, we're excited to add two new directors to Lugano's board of directors, Frederic Cumenal, former President and CEO of Tiffany & Co., and David Arnold, Vice Chairman of the Robb Report, have tremendous experience leading some of the world's most recognizable jewelry, luxury and lifestyle brands. Their additions will provide valuable guidance during this period of accelerating growth for Lugano.

Marucci had another strong quarter that exceeded expectations. Despite having a difficult comparable period as the third quarter of 2020 represented an opening up of team sports and the launch of the highly successful CAT9 line of bats, the company grew both in revenue and EBITDA in the 2021 quarter. In the year-to-date period ending September, the company's revenue grew by 82.5%, EBITDA grew by over 175%. Margins were impacted slightly by increased expedited freight costs. Company has successfully navigated strong demand and supply chain challenges, and the brand remains in demand at all levels of baseball. We are very optimistic about the company's future.

Of note, Marucci closed on the acquisition of Lizard Skins, designer and seller of branded grip products subsequent to the end of the third quarter. We believe the transaction comes with a number of strategic synergies and are excited about the combination.

Velocity Outdoor's revenue and EBITDA increased significantly in the year-to-date September period, up 38.9% and 64.5%, respectively, compared to 2020. Velocity's performance continued to surpass our expectations. Interest in outdoor activities remains strong, even while the country slowly exits pandemic conditions.

Inventory at retail for many of the company's categories has returned to healthy pre-pandemic levels, and we believe revenue will be driven by end consumer demand in the coming quarters. Challenges in the supply chain at the company continued in Q3 and, in some instances, became even more acute.

Finally, 5.11's year-to-date September 2021 revenue grew by 13.9% and EBITDA increased by 30.3% to the same period in 2020. As a reminder, similar to last quarter, through the process we have initiated at 5.11, we won't be delving further into the specifics of 5.11's performance.

I will now turn the call over to Ryan for his comments on our financial results.

Ryan J. Faulkingham

Chief Financial Officer, Excecutive Vice President, Co-Compliance Officer & Member-Investment Committee, Compass Diversified Holdings, Inc.

Thank you, Pat. Moving to our consolidated financial results for the quarter ended September 30, 2021, I will limit my comments largely to the overall results for CODI since the individual subsidiary results are detailed in our Form 10-Q that was filed with the SEC earlier today.

As a reminder, as a result of the sale of Liberty Safe during the third quarter, our historical Liberty results have been reclassified as discontinued operations in our financial statements.

On a consolidated basis, revenue for the quarter ended September 30, 2021 was $488.2 million, up 25.9% compared to $387.7 million for the prior year period. This year-over-year increase primarily reflects our acquisition of BOA during the fourth quarter of 2020. In addition, we had strong sales growth at our branded consumer subsidiaries and our niche industrial businesses on a combined basis.

Consolidated net income for the quarter ended September 30, 2021 was $90.2 million, compared to $20.9 million in the prior year. The increase in net income was primarily due to a $72.7 million gain on the sale of Liberty Safe.

Cash flow available for distribution and reinvestment or CAD for the quarter ended September 30, 2021 was $42.5 million, a little below prior year. Last year, our third quarter CAD benefited from a significant cash tax reversal. Our CAD that we generated during the quarter was above our expectations, primarily due to the outstanding performance at our most recent acquisitions, Marucci and BOA, as well as continued strong performance at our consumer and industrial businesses. Other factors impacting our CAD in the third quarter compared to the prior year include higher CapEx spend, an increase in cash taxes, and higher management fees as a result of the acquisition of BOA in the fourth quarter of 2020.

Turning to our balance sheet. As of September 30, 2021, we had approximately $70 million in cash, approximately $465 million available on a revolver, and our leverage was approximately 2.9 times. We have substantial liquidity. And as previously communicated, we have the ability to upsize our revolver capacity by an additional $250 million. We stand ready and able to provide our subsidiaries with the financial support they need, invest in subsidiary growth opportunities, and act on compelling investment opportunities as they present themselves.

Turning now to capital expenditures. During the third quarter of 2021, we incurred $8.1 million of maintenance capital expenditures of our existing businesses compared to $3.8 million in the prior year period. The increase was primarily a result of the need for increased maintenance spend at many of our subsidiaries to keep up with elevated demand levels, as well as substantial spend at Marucci as a result of facility enhancements required due to significant flooding experienced earlier this year.

During the third quarter of 2021, we continued to invest in growth capital, spending $3.2 million in the quarter, primarily related to 5.11's long-term growth objectives. Growth CapEx from the prior year quarter was $4.1 million. I'd like to now spend a few minutes to discuss how we are considering communicating our financial performance going forward.

First, we will continue to provide our adjusted EBITDA on a consolidated and subsidiary level. Valuing our businesses using multiples of adjusted EBITDA remains important to the market. Second, we recognize cash flow available for distribution and reinvestment, or CAD, has been a challenge for the market to not only digest and understand, but also to compare this metric against other cash flow based metrics in the market.

We are considering using a free cash flow metric going forward that we will define in the near future. This would be calculated from the cash flow statement and provide a measurement that can be compared to others in the market. After the end of 2021, we will no longer provide CAD to the market.

Finally, as we've mentioned previously, we are working on defining an adjusted EPS that will provide a more uniform earnings metric that other companies use and the market sees on a regular basis. We continue to evaluate this metric and anticipate discussing this metric with shareholders over the coming months.

As a reminder, we are having our Investor Day on December 9. It will be a virtual meeting and in addition to an update on CODI's go forward strategy, we are excited to have Kurt Ainsworth, the CEO of Marucci, who will provide an in-depth review of the Marucci business, as well as the growth opportunities he sees in the business. If you'd like to register for our Investor Day, there is a link on the Investor Relations section of our website.

With that, I will now turn the call back over to Elias.

Elias J. Sabo

Partner, Chief Executive Officer & Director, Compass Diversified Holdings, Inc.

Thank you, Ryan. I would like to close by briefly discussing M&A activity and our go forward growth strategy. CODI's permanent capital structure offers shareholders a unique opportunity. We are able to drive value at every stage of our investments by leveraging our sector expertise to build businesses for the long-term. We pride ourselves on being business builders, not asset traders, which was why we have completed nearly 30 add-on transaction for our subsidiaries since our inception.

We are partners to our subsidiaries and are proud of the flexibility that our permanent capital advantage brings to the table, which enables us to invest in the future of our subsidiaries regardless of the environment. At the end of the day, this is the core pillar of our approach to sustainable investing. Being able to identify platform acquisitions that will benefit from our ability to invest in them through the cycle and then divest them when the time is right for us and them. This is how we turn our permanent capital advantage into long-term shareholder value.

As we have started to emerge from the pandemic, market conditions have changed rapidly and asset prices have appreciated materially thus far in 2021. An abundance of equity capital, coupled with strong availability of debt capital, has driven an increase in M&A activity and an appreciation in asset prices.

CODI remains well-positioned to succeed in these market conditions, as evidenced by our successful series of transactions over the past few months. Our permanent capital structure allows us to be flexible and take advantage of market condition. In addition, the dramatic reduction in our cost of capital over the past few years allows us to be selectively aggressive on acquisition opportunities that we deem have potential to enhance shareholder returns.

Going forward, we will continue to invest in and enhance our subsidiary company's competitive positioning, which includes supporting them as they build and grow their digital transformation strategy. Our permanent capital structure and differentiated strategy has set us apart for more than 15 years, and it remains consistent.

In 2021, we remain intensely focused on executing our proven and disciplined acquisition strategy, improving the operating performance of our companies, opportunistically divesting, enhancing our commitment to ESG initiatives at CODI and across our portfolio, and creating long-term shareholder value.

With that, operator, please open the lines for Q&A.

QUESTION AND ANSWER SECTION

Operator: Certainly. We will now begin the question-and-answer session. [Operator Instructions] The first question is from the line of Larry Solow with CJS Securities. You may proceed.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Great. Good afternoon, guys. Lots of activity, good stuff. Maybe to get some cliff notes to this call, but could you – maybe just first question, Elias, on – I know you touched on it briefly, but just on the Lugano acquisition. Obviously, it's a very interesting acquisition, a little bit different than I think your past companies that you've owned. You talked about sort of growth strategy under the Compass umbrella just expanding on the salons. I guess, I'm just trying to get a little more color on that. I know they only have a few salons and I guess for this kind of a product, you probably don't – it's a lot of word of mouth and whatnot. So maybe you don't need that many salons like a Tiffany or something. So just kind of curious what you guys will bring to the table, maybe a little more color on the acquisition and the outlook there.

Elias J. Sabo
Partner, Chief Executive Officer & Director, Compass Diversified Holdings, Inc.

A

Yeah. Thank you, Larry, and thanks for the question and nice speaking with you this afternoon.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

[ph] Thank you (00:36:39).

Elias J. Sabo
Partner, Chief Executive Officer & Director, Compass Diversified Holdings, Inc.

A

It was a busy quarter and it's been a pretty busy year for us.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Yeah.

Elias J. Sabo
Partner, Chief Executive Officer & Director, Compass Diversified Holdings, Inc.

A

And I'm pleased with a lot of things that are going on, but specific to Lugano, I'm going to ask Pat to fill in a lot of the blanks, I would say. I think it is consistent in terms of – this is the premium. In fact, in this case, a very luxury good, consumer good. We have a lot of experience in building luxury good businesses and turning them into really kind of iconic brands and global brands. And you've seen that in a lot of the businesses that we've done before.

One thing I will note, and I'll then ask Pat to fill in, is this is a business that is quite capital intensive. And I think for everybody as you think about it, we need to invest a significant amount of capital and working capital principally through inventory to enable growth of this business. You have to have product in order to be able to sell the product and grow revenues. I think one thing you'll see is inventory turns relatively slow here. It's kind of rule of thumb about one time, it's a little better than that. But this is all good. Very high quality, sellable inventory because it's primarily diamonds and the environment we're in, which has a decent amount of inflation continued monetary printing, owning hard assets like that probably isn't the worst thing, especially with financing costs being so low.

But I do think we all should understand one aspect of the company's growth that we will be instrumental in and this has nothing to do with shaping strategy or what Pat will talk about is simply funding the capital requirements to enable it to grow. And I will tell you, we will specifically call out some of those investments quarter-to-quarter because they may be large to the extent the company is growing very rapidly, which it is right now, and I think it's important to call that out.

So with that, I'll ask Pat maybe to fill in a little more on what we see as opportunities to continue to build the brand.

Patrick A. Maciariello
Partner & Chief Operating Officer, Compass Diversified Holdings, Inc.

A

Yeah. I would just add that. I mean, this is a different business, as you hit on, than we're used to buying and used to partnering with. And we really partnered with Moti and the team there.

At the end of the day, these people are artists, very good artists. And they create product that's in demand. At the same time, they have a really deep network of buyers to make attractive purchases when they become available. So it's sort of that combination that makes sense. Over the next 12 to 24 months, I would envision we build two to three more salons and we have sort of identified sort of high-single digits beyond that over the next four to five years, if that makes sense.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Yeah. Absolutely. Okay. Great. Pat, maybe a question for you just on the supply chain issues, inventory issues, rising cost of labor. Obviously, it sounds like most companies, things have gotten worse or getting slightly worse, not better. And you've had an ability – you still have an ability to pass on price. But it does sound like you're able to pass on price, but you also have mentioned that there are some lost revenue opportunities. And I suppose at a point, you can't continue to raise prices, right? So is it fair to say that your numbers are fabulous and probably would be even better without these supply chain issues even though you're able to cover a lot of that with the price?

Elias J. Sabo
Partner, Chief Executive Officer & Director, Compass Diversified Holdings, Inc.

A

It's fair to say that our numbers would be better without the supply chain issues, yes. There are certainly places within the portfolio that we could take additional price and there's certainly places where, as you mentioned, we can't or probably it wouldn't be prudent to at this time. Our companies are managing through this and the management teams extremely well. Sometimes, as in the case of Ergobaby, it pushes revenue from one quarter to another. Other times, honestly, we don't have quite all the revenue that we would have despite our strong performance.

So we continue to really be adept and agile, and we think we're going to work through this and we think we're better positioned than most.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Okay. That's fair enough. And just one Compass [indiscernible] (00:41:10) question, just on BOA, really off-the-chart numbers here, again back to back quarters, and I know it does sound like some pull forward has probably occurred like you mentioned, but even so it seems like you're way ahead of expectations. Curious you seem more – I know you've gotten a lot of new customer wins or new shoe wins or whatnot. Are these from existing customers? Are you expanding the customer base or is it more growth within just new lines at existing customers or perhaps...

Elias J. Sabo
Partner, Chief Executive Officer & Director, Compass Diversified Holdings, Inc.

A

A little bit of all of the above, honestly. I mean, this company is meticulous tracking market share by industry segment and sort of what number of platforms they're on versus what number of platforms that are out there. And the preponderance of growth has been driven by sort of, what I call, increased market share for their products working again in existing markets.

There are examples of where we're growing in new markets. In Asia, I can think of one or two specifically. And then there's several examples of where we plan to grow in new markets over the next several years that are exciting as well.

So it's all of the above. I would say the most of this growth is driven by market growth and increased market share for BOA's products.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Right. Got it. Okay, great. I appreciate all the color, guys. Thanks again.

Elias J. Sabo
Partner, Chief Executive Officer & Director, Compass Diversified Holdings, Inc.

A

Thank you, Larry.

Operator: Thank you, Mr. Solow. The next question comes from the line of Matt Koranda with ROTH Capital. You may proceed.

Matt Koranda
Analyst, ROTH Capital Partners LLC

Q

Hey, guys. Thanks for taking the questions. Just want to start off, I mean, there are a lot of moving pieces, I guess, with the balance sheet heading into year-end here with the divestiture of ACI and some of the tuck-ins that you've made. So, just wondered if maybe you could help us kind of bridge your cash and revolver debt position to the year-end 2021 number pro forma, just assuming, I guess, that we get ACI divested and assuming that all the capital outlays from the recent tuck-ins that you've done kind of go through and then if there are any other incremental balance sheet items we should be considering for the year end 2021.

Ryan J. Faulkingham
Chief Financial Officer, Excecutive Vice President, Co-Compliance Officer & Member-Investment Committee, Compass Diversified Holdings, Inc.

A

Yeah, sure. Matt, this is Ryan. Thanks for the question. So, yes, so from September 30, there's certainly been a number of balance sheet transactions. We did the Altor Solutions add on. We've done the Marucci add on as well. The amount of the Altor purchase price was disclosed around $60 million. Marucci was not, but you'll see that in the 10-Q, just under $50 million, roughly. So, that's been about $110 million of deployed capital.

We have, of course, working capital movements, plus or minus, just depending on subsidiary cash flows that come up to us. But those are the two substantial transactions. There are other small ones, such as our bond interest payment was due in October, of course, our distributions as well. So those are all quantifiable.

And then, Advanced Circuits, there will be a 2022 transaction. So as we roll to December 31, that will not necessarily reduce our revolver outstanding. I can tell you, though, we expect the cash receipts from our companies. And in addition, as we highlighted on the script, we do have our ATM program that would open up after earnings to the extent raising equity capital at a good price makes sense. We'll do that. So, I can't give the exact dollar, of course, but those are large items to consider.

Matt Koranda
Analyst, ROTH Capital Partners LLC

Q

Okay. That's very helpful. Thanks, Ryan. And then just a broader question probably for Elias here, I wondered if you could speak for a moment on the pipeline of potential acquisitions. So just any update on the maturity of some of the acquisitions that are in the funnel, relative size of some of the platform opportunities you're seeing currently, and just any commentary on just sort of how acquisitions may skew between platform versus tuck-in on a go-forward basis. I know you mentioned some stuff at the end of the call that was interesting, but maybe you could expand upon sort of the commentary that you had there would be helpful.

Elias J. Sabo
Partner, Chief Executive Officer & Director, Compass Diversified Holdings, Inc.

A

Sure, Matt. So I would say just in general, the M&A markets are robust, maybe a bit of an understatement, but there's a significant increase in the number of transactions that we are seeing right now. Now that being said, I would say there is a kind of equal or even higher increase in acquisition multiples that are being paid.

And if you just think of the landscape, we still have the number of SPACs that were raised, obviously, that are competing in the market for assets. But even more so you have private equity firms who, by and large, sat on the sidelines during 2020 and now losing a year against what is already a relatively short timeline to put money to work, right? Typically, these vehicles have five years to put capital to work. If you lose one of those years, all of a sudden you're down to four. That's a material increase in the activity that you need to kind of go forward with.

And so we're seeing this high end demand, principally from PE firms, drive asset prices incredibly high. And so as a result of that, obviously, we have to pick our spot. And the pipeline is strong, but we are remaining disciplined. And on some of the larger platform opportunities that we're looking at, I would say, in many instances, pricing is beyond where we want to reach.

Now that being said, you asked kind of size of things that we're looking at. In general, consistent with our philosophy and where we're trying to build the business, we're looking slightly larger. And so I would say there's numerous transactions that sort of are in that $40 million, $50 million EBITDA range. That seems like kind of a good sweet spot for us to be able to make an initial investment and then try to build it to $70 million to $100 million through add-on and through growth initiatives.

But in general, you will see the size of companies that we're looking to acquire are larger. If they are smaller, there's got to be a real angle to be able to grow them either through organic growth or through add-on acquisition.

It's always impossible to say whether we'll be able to transact and the frequency of transaction that we'll be able to close. We have been very fortunate and that we closed three add-on transactions this year. If you went back to Ramco, Plymouth Foam into Altor, Ramco was into Arnold, and then Lizard Skins just most recently into Marucci, we're looking constantly for add-ons, but we're open to do either add-ons or platform. And we feel that our capital availability is really strong. It does come down to are we finding high enough quality growth opportunities in these companies because pricing is at a level where you really have to be able to underwrite and feel good about the growth to be able to kind of justify pricing and earn the level of return that we expect to return or to achieve.

So, I know that doesn't answer your question specifically. There are a lot of transactions that are happening right now. There's a lot in the pipeline. It continues to grow pretty rapidly. But kind of high pricing is moderating some of the activity we'd otherwise expect to see with this level of transactions that we're looking at.

Matt Koranda
Analyst, ROTH Capital Partners LLC

Q

Okay. Very detailed and helpful to kind of get the overview there, Elias, I appreciate it. And then I think last one for me, maybe Pat could help with this one. But just curious to get a little bit more of a view on some of the synergies you see with Marucci and Lizard Skins. It just seems notable to me that they have a number of verticals that they play in beyond diamond sports and it seems like they have a strong presence there as well. But wondering if this gives Marucci sort of the right to play in some additional verticals or if you're just going to kind of keep the Lizard Skins brand standalone and just a little bit more color on that would be great.

Patrick A. Maciariello
Partner & Chief Operating Officer, Compass Diversified Holdings, Inc.

A

Obviously, the first opportunity is putting Lizard Skins and Marucci bats, right? But I'll kick – with that, I'll actually kick the question over to Dave Swanson, who's the Chairman of Marucci and let him give you a more detailed answer.

David Swanson
Partner, Manager-East Coast Office & Member-Investment Committee, Compass Diversified Holdings, Inc.

A

Yeah. And I think you're right. The biggest synergies we see are obviously in diamond sports and I would expand beyond baseball to softball. So that's, I would say, the main appeal of the transaction and why're really excited about it. But as you mentioned, they also have a nice presence in bike and a small presence in hockey and e-sports. And so, I'd say we'll probably play that one more by ear. I think it could become an opportunity over time.

But I would say that wasn't kind of the rationale of the transaction and we think just from a diamond sports perspective, it makes a lot of sense. But potentially some future opportunities in other areas for Marucci as well.

Matt Koranda
Analyst, ROTH Capital Partners LLC

Q

Great. Makes a ton of sense. Appreciate all the answers, guys. I'll jump back in queue.

Elias J. Sabo
Partner, Chief Executive Officer & Director, Compass Diversified Holdings, Inc.

A

Thank you, Matt.

Operator: Thank you, Mr. Koranda. [Operator Instructions] The next question comes from the line of Cris Kennedy with William Blair. You may proceed.

Cristopher Kennedy
Analyst, William Blair & Co. LLC

Q

Hey, guys. Thanks for taking the question. Congratulations on all the activity, and I appreciate the detail. Two quick ones. Lugano, can you talk about kind of the seasonality of that business over quarters? What should we think about there?

Patrick A. Maciariello
Partner & Chief Operating Officer, Compass Diversified Holdings, Inc.

A

It's not that seasonal. I mean it's – management would say it's really not seasonal at all and that there's – that it's relatively even over the four quarters.

Cristopher Kennedy
Analyst, William Blair & Co. LLC

Q

Got it. Okay. And then, Elias, I think I always ask this question, but can you give an update on potentially expanding beyond the consumer and the niche industrial verticals? Kind of where are you in your thought process and in that journey? Thanks a lot, guys.

Elias J. Sabo
Partner, Chief Executive Officer & Director, Compass Diversified Holdings, Inc.

A

Yeah, Chris, and thank you for the question. Nice talking to you this afternoon. We continue to make progress. As we've said, we are looking to enter into the healthcare vertical given how, I would say, kind of unique that vertical is and the skill sets that are needed. We have taken our time to identify individuals who could come in and be a leader. We don't think that we could do this without having some sector expertise at the top to lead the efforts.

We made some pretty good progress, not to a point where we want to announce anything yet. But I would say, we continue to make progress with kind of at least a candidate and a couple that are in the system. And I would think in the next – because it is very senior, the position, the skill set needs to be very specific and the cultural fit has to be right when you're coming in at that level to our firm. It sort of takes on a different level of kind of recruiting. And so with all that said, we feel good about where we are. We feel in 2022, we will be able to execute on launching that new vertical around a new individual and we're in the final throes we think of kind of securing someone in the next, call it, three to six months.

Cristopher Kennedy
Analyst, William Blair & Co. LLC

Q

Great to hear. Thanks a lot.

Operator: Thank you, Mr. Kennedy. There are no additional questions waiting at this time. I would like to pass the conference back over to Elias for any closing remarks.

Elias J. Sabo
Partner, Chief Executive Officer & Director, Compass Diversified Holdings, Inc.

Thank you, operator. As always, I'd like to thank everyone again for joining us on today's call and for your continued interest in CODI. We look forward to sharing our progress with you at our Investor Day on December 9.

Operator: That concludes the Compass Diversified's third quarter 2021 conference call. I hope you all enjoy the rest of your day.