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Compass Diversified Holdings, Inc. (CODI)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to Compass Diversified Second Quarter 2020 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 Mr. Matt Berkowitz of The IGB Group for the introductions and the reading of the Safe Harbor statement. Please go ahead, sir.

Matthew Berkowitz
Senior Account Executive, The IGB Group

Thank you and welcome to Compass Diversified second quarter 2020 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 we begin, I would like to point out that the Q2 2020 press release, including the financial tables and non-GAAP financial measure reconciliations, 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 close, which includes reconciliations of non-GAAP financial measures discussed on this call.

Please note that references to EBITDA in the following discussions refer to adjusted EBITDA as reconciled to net income in the company's financial filings. 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 its subsidiaries. Words such as believes, expects, 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 conditions. Certain factors could cause actual results to differ on a material basis

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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 Securities and Exchange Commission for the quarter ended June 30, 2020, as well as in other SEC filings.

In particular, the domestic and global economic environment, as currently impacted by the COVID-19 pandemic, 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 second quarter earnings conference call. Before discussing our results, I would like to take a brief moment to acknowledge the continued impact of the COVID-19 pandemic. The last few months have been challenging in many ways for so many people and we hope that you and your families are well in managing through this period of change. As we said on our last call the safety and well-being of our employees remains our top priority. We are continuing to follow national, state and local guidelines and implement industry-wide best practices to protect our employees. We recognize that our teammates are one of our most valuable assets and we are committed to making sure they feel comfortable and supported during this time.

Despite the challenges we experienced during the last few months, I am pleased to report that our second quarter results substantially exceeded our expectations. Excluding Marucci, consolidated subsidiary adjusted EBITDA for the second quarter was $54 million compared to $55.2 million in the second quarter of 2019. These results were significantly better than the guidance range of $28 million to $38 million provided during our first quarter earnings call. While the impact of the response to the pandemic has been widespread and continues to pose challenges for each of our subsidiary companies, we have been impressed with the ongoing efforts of our management teams to position our companies for long-term success.

Together we reduced spending and monetized working capital throughout the quarter to maximize cash flow. Our strong results and continued distribution payment demonstrates the benefits of owning a family of diversified, uncorrelated subsidiary companies, the extent of which has never been so pronounced. While some of our subsidiaries have been acutely impacted by the pandemic with end market demand in certain segments nearly disappearing, others have experienced record levels of demand on a seasonally adjusted basis.

During the second quarter we strategically accessed the capital markets and raised approximately $290 million of additional capital. Coming into the quarter our balance sheet was already strong and this capital raise gives us meaningful financial flexibility to execute on growth opportunities that we believe will be abundant coming out of the pandemic. Our [indiscernible] (00:05:04) to investing, disciplined allocation of capital and active management of our subsidiary businesses resulted in upgrades from both Moody's and S&P in connection with our capital raise.

Our actions over the past two years have underscored the effectiveness of our permanent capital structure and advantage of our model. We spent much of 2018 out of the acquisition market and were a net divestiture of approximately $1 billion in assets in 2019. [indiscernible] (00:05:36) we are turning to a more aggressive acquisition strategy and plan to use our strong balance sheet position to [indiscernible] (00:05:43) our growth and deliver outsized shareholder returns.

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We remain focused on continuing to selectively partner with management teams that can benefit from our deep sector knowledge, operational expertise and permanent capital base as they manage through the near term uncertainty and position themselves for years to come. One example of our strategy and action came at the end of the quarter when we announced the add-on acquisition of Polyfoam to our Foam Fabricators platform. This acquisition is highly complementary to Foam Fabricators geographic footprint and increases its cold chain revenues which are benefiting from long-term secular growth. Additionally we have supported 5.11 as the company became opportunistic signing leases again to further expand its retail footprint capitalizing on favorable lease pricing and continued consumer demand.

Now turning to our financial results. Consolidated subsidiary pro forma revenue for CODI for the second quarter, including Marucci, declined by 4.5% to $334 million, and consolidated pro forma adjusted EBITDA declined by 8% to $52 million. Our results were favorably impacted by a surge in demand for outdoor-related products along with cost management across our subsidiaries. Of our nine subsidiaries three showed growth over prior year, and virtually all of our companies exceeded our expectations.

We generated $13.5 million of cash flow available for distribution and reinvestment which we refer to as CAD during the second quarter of 2020 exceeding our expectations. Notably our cash taxes were significantly higher than expected due to our Velocity subsidiary. We expect the majority of these cash taxes to reverse in the second half of 2020. Ryan will discuss our financial results in greater detail shortly.

On April 20 we closed on our acquisition of Marucci Sports, a leading designer and manufacturer of premium baseball and softball equipment and apparel. Despite the shutdown of professional baseball and most youth sports Marucci performed better than expected in Q2. Although 2020 will be a challenging year for Marucci we are pleased to own this business and believe it is poised for accelerated growth in the long-term.

Turning to guidance. While we continue to see uncertainty in the second half of the year stemming from the pandemic, we have enough visibility across our subsidiaries to provide insight into our full year consolidated EBITDA expectations and our payout ratio. The pandemic continues to change every day and while continued shutdowns of certain areas of the economy could negatively impact our results more than we currently anticipate, we felt it was important to provide our shareholders and capital partners with some visibility into our expected performance.

Please note that our guidance includes Marucci as if it was acquired on January 1, 2020. For full year 2020 we anticipate pro forma adjusted consolidated subsidiary EBITDA of between $210 million and $240 million. And we anticipate a CAD payout ratio for the year of 140% to 120%. At the midpoint of our guidance range we expect to pay out approximately $20 million more in distributions than we earn in CAD for the full year of 2020. Although we strive to always earn more than we pay out we recognize this year is an anomaly and are well positioned to make the payments despite lowered earnings for the year. In fact, as you know, we opportunistically sold two companies in 2019 and generated approximately $240 million in net gain. We expect to pay out less than 10% of these net gains we generated in last year's divestitures to maintain our distribution levels in 2020 which is a priority for us.

Before I turn it over to Pat to provide additional detail on our subsidiary companies' performance in the second quarter, I want to update you on two of our internal initiatives started early in the 2020 year. First, we have continued to push forward with our goal of being a leader in terms of ESG, taking numerous steps this quarter to advance this important initiative and integrate ESG considerations further into our investment process from the point of due diligence and through the ongoing management of our subsidiaries. Second, I encourage you all to

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check out our newly designed website which launched this week and has more information on our progress in these areas and now over to Pat.

Patrick A. Maciariello

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

Thanks, Elias. Before I begin on our subsidiary results for the quarter, which as a whole exceeded our expectations, I want to touch generally on the effects of the pandemic throughout our companies. Broadly speaking our niche industrial businesses sales and earnings were impacted more negatively than our branded consumer businesses as work stoppages or disruptions impacted several of the end markets our industrial businesses serve, among them aerospace, appliances and hospitality. However, our branded consumer businesses benefited significantly from increased consumer demand in outdoor categories and as a result we experienced strong sales and earnings growth.

Now on to our subsidiary results for the quarter. I'll begin with our niche industrial businesses. For the second quarter of 2020, revenues declined by 12.4% and EBITDA decreased by 19.1% over the comparable quarter in 2019. For the year-to-date period, revenues declined by 9.7% and EBITDA decreased by 14.8% over the comparable period in 2019. Advanced Circuits continued its steady performance with EBITDA in the quarter growing slightly over prior year. The growth CapEx investment we made last year in a new facility in Chandler, Arizona continues to pay dividend as this manufacturing facility is producing strong growth over prior year.

Foam Fabricators' EBITDA was down 20% in the second quarter on a 23% revenue decrease. Foam Fabricators margins benefited from lower input costs and other cost containment initiatives. During the quarter many Foam Fabricators customers were forced to temporarily suspend production due to the COVID-19 pandemic resulting in decreased demand. Revenue strengthened during the quarter, however, and thus far in July revenues were trending close to year ago levels.

Arnold Magnetics' EBITDA declined by 18% in the second quarter from the year ago period. We believe the longer term prospects for Arnold remain strong as their product offering is central to company's continued efforts to become more energy efficient. However, some of the company's end markets, namely, aerospace and oil and gas are challenged due to the effects of the pandemic and are unlikely to rebound in the near term. As a result we expect Arnold to have a challenging 2020.

The Sterno Group's EBITDA was down 29% in Q2 2020 from the year ago period. Sterno performed much better than our revised expectations early in the second quarter as the company's consumer business experienced record demand on a seasonal basis for its line of wax and essential oil products. The core catering line of chafing fuel and related products, however, experienced a near complete halt in demand. We expect this segment to remain depressed for some time as large gatherings continue to be discouraged given the ongoing pandemic.

Despite the reduction in catering-related sales we want to acknowledge the extraordinary effort from management including the painful reductions in personnel as well as the shift in strategy to develop and produce a line of high quality hand sanitizer products in a short period of time. Sterno has been a trusted brand in the foodservice industry for more than 100 years, and with the increase in hand sanitizer demand in this channel, we believe the company is well-positioned to take market share.

Now turning to our branded consumer businesses. Our results for Marucci are presented as if we owned it from January 1, 2019. For the second quarter of 2020 pro forma revenues and adjusted EBITDA increased by 2.5% and 7.5% respectively over the comparable period in 2019. For the year-to-date period pro forma revenues and adjusted EBITDA increased by 3.5% and 8.8% [ph] respectfully (00:14:30) over the comparable period in 2019.

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Ergobaby's EBITDA was down 4% in Q2 2020 from the year ago period. Ergobaby benefited from international distributor demand that was ordered prior to the pandemic and fulfilled in the second quarter. Globally end market demand was weak during the pandemic and as a result our distributor partners have excess inventory that needs to be reduced, resulting in expected weakened demand in the third quarter and potentially in the fourth quarter. Despite the lowered expectation for the balance of the year, we are seeing end market demand recover swiftly and our domestic Ergobaby brand produced roughly flat revenues in the second quarter relative to the year ago period.

Liberty Safe's EBITDA was up 80% in the second quarter from the year ago period. Liberty continued to benefit from securing distribution with large farm and fleet customer in the third quarter of last year. In the upcoming third quarter Liberty will be comping against this initial load in. Despite this difficult comparison end market demand remains robust and most of Liberty's production capacity is booked through the end of the third quarter. Additionally end market demand online and at retailers remain strong for Liberty's product driven by the current elevated levels of uncertainty.

Marucci's revenue in the second quarter declined by 60% and EBITDA declined from approximately $1 million in 2019 to negative [ph] $2,004 (00:15:49) in 2020. Please note that our second quarter results only include approximately $800,000 of loss. Despite the negative comparisons these results were ahead of our expectations. As we expected, end market demand for Marucci's products dropped precipitously as professional baseball and youth sports were temporarily halted and many sporting good retailers were closed for portions of the quarter. Professional baseball resumed play in the United States in a modified 60-game season last week and youth sports are starting in parts of the country. Marucci has seen increased demand in its direct channels; however, high inventory levels in its wholesale accounts need to decline before revenues revert to more normalized levels. Despite the ongoing challenges we remain optimistic about Marucci's future.

Velocity Outdoor's EBITDA was up 104% in Q2 2020 from the year ago period. This performance was much better than expected as demand for all products increased dramatically driven by a broad trend towards increased outdoor activities. While the rapid surge in end market demand has placed significant stress on the supply chain and internal production capacity, management and the company's employees have performed admirably in rising to the challenge. Currently retail channels are low on inventory and we are working diligently to increase production in order to both meet end market demand and keep our wholesale partners in stock with adequate inventory levels.

Finally, 5.11's EBITDA was down 3% in Q2 2020 from the year ago period. However, on a year-to-date period basis, 5.11's EBITDA has increased by 9%. 5.11 closed its retail stores to the general public in April and upon reopening has been working under modified hours. Additionally, the professional side of the business experienced reduced orders in the second quarter as first responders were focused on securing products most necessary for fighting the pandemic. Orders on the professional side started to recover in June and bookings have been accelerating thus far in July. Despite the weakness on the professional side, the consumer portion of the business continues to perform significantly ahead of expectations.

During the second quarter our same store sales, which includes our e-commerce business, grew by approximately 10.5%, an acceleration from 7.5% same store sales growth in the first quarter of 2020. We believe many macro trends are positively impacting the 5.11 consumer brand and that the company has even stronger opportunities moving forward. Trends positively impacting the 5.11 brand include increased participation in outdoor activities worldwide, a shift from dress attire to casual wears, companies offer more flexible work schedules and more formal in-person meetings are limited and an increased preparedness mindset consistent

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with 5.11's positioning and its mission statement to Always be Ready. We continue to believe 5.11 will be transformational to the entirety of Compass.

With that, I will now turn the call over to Ryan to add his comments on our financial results.

Ryan J. Faulkingham

Executive Vice President, Chief Financial Officer & Co-Compliance Officer, Compass Diversified Holdings, Inc.

Thank you, Pat. Before I discuss our consolidated financial results for the second quarter of 2020, I want to highlight our second quarter distributions that were recently paid to shareholders. On July 23, 2020, we paid shareholders a cash distribution of $0.36 per common share representing a current yield of approximately 8.9%. Including this distribution, we have paid approximately $19.68 per share in cumulative distribution since CODI's 2006 IPO. This reflects 131% of the IPO price. Further, tomorrow, we will pay cash distributions of approximately $0.45 per share on our 7.250% Series A Preferred Shares and approximately $0.49 per share on our 7.875% Series B and Series C Preferred Shares. All three preferred distributions cover the period from and including April 30, 2020, up to but excluding July 30, 2020.

Moving to our consolidated financial results for the quarter ended June 30, 2020. I will limit my comments largely to the overall results for our company since the individual subsidiary results are detailed in our Form 10-Q that was filed with the SEC earlier today. On a consolidated basis, revenue for the quarter ended June 30, 2020, was $333.6 million, down less than 1% compared to $336.1 million for the prior year period. This year-over-year decrease reflects the challenging economic conditions as a result of the COVID-19 pandemic. Strong sales growth at our branded consumer subsidiaries, Velocity Outdoor and Liberty was offset by declines in other of our businesses previously discussed.

Consolidated net loss for the quarter ended June 30, 2020, was $7.4 million. Consolidated net income for the prior year second quarter was $218.2 million and included a $206.5 million gain recorded in connection with the sale of Clean Earth. CAD for the quarter ended June 30, 2020, was $13.5 million, down from $26.2 million in the prior year period. Our prior year CAD included our results from Clean Earth up until June 30, 2019, the date of sale. Our CAD during the quarter was above our expectations with EBITDA only down slightly from prior year, substantially above our expectations and our subsidiary management teams reducing CapEx spend in light of economic conditions. We would have generated significantly more CAD in the quarter; however, our cash taxes were negatively impacted by more than $6 million at Velocity Outdoor. As we've mentioned many times in the past our cash taxes are extremely difficult to predict quarter-to-quarter, however, on an annual basis, it is much easier. We anticipate a large majority of the impact of Velocity Outdoor's cash taxes to reverse in the second half of 2020 and therefore benefit our second half CAD performance. I'll provide more guidance on cash taxes shortly.

The other factors impacting our CAD during the quarter, as compared to the prior year, was lower interest expense, lower management fees as a result of our waiver of 50% of the management fee in Q2 and higher preferred share distributions as a result of our Series C issuance in November 2019. As Elias mentioned earlier, our balance sheet is strong. As of June 30, 2020, we had over $200 million in cash and approximately $600 million available on our revolver. Our leverage is below 2 times. We stand ready and able to provide our subsidiaries the financial support they need, make distributions to our preferred and common shareholders as well as move on compelling investment opportunities in this dislocated market as they present themselves.

Turning now to capital expenditures. During the second quarter of 2020, we incurred $3.3 million of maintenance CapEx of our existing businesses compared to $4.4 million in the prior year period. The decrease in maintenance CapEx was related to our reduced CapEx spend across a majority of our businesses. During the second quarter

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of 2020 we continued to invest growth capital, spending $3.1 million in the quarter primarily related to 5.11's long-term growth objectives. Growth CapEx in the prior year quarter was $6 million.

Turning to our expectations for 2020. As a reminder our quarterly operating and cash flow results can vary materially based on factors such as the timing of shipments of large orders or the timing of certain investments made before or after quarter end. Elias provided adjusted EBITDA guidance and our payout ratio expectations for the full year of 2020. I'd like to now provide guidance on CapEx and cash taxes. For maintenance CapEx, we have previously estimated CapEx spend of between $20 million and $25 million for the full year of 2020. Our current estimate for maintenance CapEx for the full year of 2020 including Marucci is between $17 million and $20 million. For growth CapEx we had previously estimated spend of between $10 million and $15 million for the full year of 2020, however, our revised expectation for growth CapEx is between $13 million and $15 million primarily at 5.11.

For 2020 cash taxes our previous expectations were to spend between 6% and 8% of our subsidiaries' total EBITDA on cash taxes. We now expect cash taxes will decline to between 6% to 7% of our subsidiaries' total EBITDA. Keep in mind this percentage should be applied to full year 2020 total EBITDA and not quarterly as we experienced in Q2 with Velocity Outdoor our cash taxes as a percentage of EBITDA can vary significantly quarter-to-quarter.

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. As I mentioned earlier we took steps in 2019 to prepare for the unexpected and those decisions have positioned us well to weather the storm and emerge stronger on the other side. We have the balance sheet strength to support our companies as they operate in these highly unusual times. Our companies are leaders in the respective industries and are poised to gain additional market share in the months and years to come. Our balance sheet strength has allowed us to pursue growth initiatives unavailable to others as the debt markets closed to all but the highest quality issuers. We believe the best opportunities to generate long-term shareholder value occurred during market dislocations like we are currently experiencing and we are constantly evaluating the best ways to enhance our portfolio while prioritizing the financial health of our subsidiaries.

We entered the year with significant balance sheet strength and further solidified it with the capital raised in May. With our enhanced balance sheet position and the resiliency of our subsidiary companies, we feel increasingly prepared to capitalize on new opportunities while taking a patient and disciplined approach to executing our growth priority. Our strategy has differentiated CODI for more than two decades and remains consistent as we navigate the uncertainty ahead and position our subsidiary companies for long-term success. We are 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 across our portfolio, distributing sizable distributions and creating long-term shareholder value.

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

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QUESTION AND ANSWER SECTION

Operator: That is noted. [Operator Instructions] Our first question comes from the line of Larry Solow from CJS Securities. Your line is now open.

Larry S. Solow
Analyst, CJS Securities, Inc.
Q

Great. Thank you. Good afternoon, guys. Just had a few...

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

Good afternoon, Larry.

Larry S. Solow
Analyst, CJS Securities, Inc.
Q

Just a couple on the subsidiaries, and then maybe one on – general question. Just on Velocity Outdoor, obviously benefiting from the demand for outdoor products. They know they started sort of as COVID sort of came out, these guys – you guys were sort of doing – undergoing little bit of restructuring there, has that come into play a little? Can you just sort of speak to Velocity's sort of mid-term outlook and do you expect sort of this demand and these kind of performance numbers to continue in the back half of the year? I realize it's not ...

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

Hey...

Larry S. Solow
Analyst, CJS Securities, Inc.
Q

...that easy to [indiscernible] (00:27:39)

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

Yeah, so I think on the manage – Larry this is Pat. I think on the management side...

Larry S. Solow
Analyst, CJS Securities, Inc.
Q

Yeah.

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

...Tom McGann, Kelly Grindle and the team beneath them have really done an exceptional job managing through this, and we couldn't be happier. As it relates to demand, I mean I can't speak to October and November. I can tell you we don't see any slowing down in July and probably August, and we'll see from there. If you remember Q3 is a big quarter for them seasonally anyway as it relates to hunting and outdoor activities. So, how's that for

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guidance? That's – I could [indiscernible] (00:28:16) next few months, I can't tell you what December is going to look like.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

No, no, no, no. That's what I was saying at the end of my question, that I realize it's not easier. I get it, I get it. [indiscernible] (00:28:26).Then on Sterno, obviously much better than feared, certainly down year-over-year but with a piece of your business basically being temporarily wiped out or close to zero, can you speak [indiscernible] (00:28:39) and the actual year-over-year growth at that business? I got to imagine it's pretty material.

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

A

It's material – there's no doubt it's material, but we've also seen hand sanitizer sales, some of the outdoor more camping fire starter sales help through the retail channels. So I don't think we [indiscernible] (00:29:01) it is a material growth. But I don't think we speak directly to subsidiaries or pieces of businesses but the other part of it is kind of a transition to hand sanitizer and some demand for those other non-chafing fuel-related product external sales.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Right and it's pretty commendable to be able to shift into that – start making the hand sanitizer just on a qualitative basis [indiscernible] (00:29:28) sounds like it actually quantitatively moved the needle somewhat on outperformance?

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

A

Yeah, I think – Larry I think the team really needs to be commended here for this. It isn't easy to bring up a new line. I think everybody is aware or probably a lot of people are aware there is something like 75 companies that had – have had hand sanitizer recalled lately by the FDA. A lot of them are imports or they are companies that tried to get quickly into the market. There's actually quite a bit that you have to go through from a regulatory standpoint to be able to do this and this is the process that requires special manufacturing conditions like explosion-proof rooms. Sterno have that all available to them and the management team really moved at light speed to be able to do this and what excites us about this product category, one, is we think it's now a new category that's here to stay in the hospitality industry. By and large before...

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Right.

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

A

...it wasn't there because most restaurants encouraged their employees to wash their hands rather than to use hand sanitizer but now guests are using hand sanitizer. So it's a big change. So this is a new market that's kind of up and open for grabs and Sterno's quality has always been number one with Sterno. And we have a 100-year track record of establishing quality product, distribution capabilities and so lot of companies have come in with product that may not be up to spec, our product is and it passes kind of all the requirements and so the team has

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done a great job and we think this is a nice adjacent market that is probably here to stay at some level and will be complementary to the chafing line when that business comes back.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Right, no, good, yeah, absolutely. Okay, shifting gears just probably on 5.11. Can you just remind us roughly normalized what – the percentage of the business that's on the professional side, what is that roughly or what was it in 2019?

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

A

It was – professional was a little greater than 50% of the business and I'm going to talk about professional being both domestic and international with sort of 55% of the business in 2019. Given the differential in growth rates we anticipated that 2020 that would reverse. In fact it has, especially as the consumer business you see some of these trends. Pat mentioned the growth in same store sales which clearly includes e-commerce. But if you compare that to a lot of household brand names that are out there that sell apparel and footwear, some of these guys are down 30%, 40%. In this company same store sales growth accelerated from kind of 7% to 10% in – from Q1 to Q2, so it really is a, I think, strong testament to this brand and its emergence and how much it speaks to its consumer, but just in terms of percentages the consumer business is now running larger than the professional business. So, if it was 55%, 45% last year, it's sort of flip flopping this year.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Right. Yeah, no, very impressive and then on the – it sounds like you guys have – I know [indiscernible] (00:32:50) store openings were caught up on a little bit of a pause, but it sounds like you found some new locations and little bit of CapEx going into, I assume, a restart, maybe a slower ramp [indiscernible] (00:33:03) store openings, any color to that?

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

A

Yeah. We're opportunistically opening up stores. We've authorized some and we won't have the same number of new stores in 2020 likely that we had in 2019. But there's opportunities out there as landlords are feeling the effect of this market too. Even if – so that's what we're doing.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Right, okay. And then [indiscernible] (00:33:27) transformational to the entire company, is that just sort of the – obviously it's your biggest or your second biggest holding today in a [indiscernible] (00:33:35) the growth outlook, is that potential monetization of the asset, what sort of do you mean by that or any thoughts on that?

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

A

Yeah. So Larry we think this is a company that more likely than not will follow the fox path if it continues with the growth that it's been on and would be an IPO candidate for us. I think when you consider companies that are more on trend and have really long-term – first off we talked about the same store sales comps which in any type of business like this is going to be really meaningful to value a company. But if you just think of some of the

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drivers that are kind of, and Pat enumerated a few of them that are really aiding in that growth, you think about how early the company is in its roll out of stores, e-commerce continuing to grow along with that and as we continue to enable more consumer services, we think we're just really early in this consumer component of the company's growth and as a result of that we think that multiples are generally pretty high for companies that demonstrate these type of characteristics. Very low cyclicality in the depths of the pandemic, really high growth rates driven by a lot of white space and kind of just new opportunities to put down retail stores but then strong same store sales growth and when you combine a bunch of those factors, we think this is not just a fast growing company for us but it's also a really high valuation multiple based on that and I think when you look at it where are some of its competitors or just people broadly in the consumer lifestyle business that are on trend are trading, with these type of growth profiles, are trading on a multiple basis, you could easily see how it could help re-rate the share price of CODI if it was to be a standalone public company trading anywhere near where some of these other kind of consumer lifestyle brands are trading.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Yeah. Right. Got it. Again, I appreciate the color. Thanks a lot and congrats again on a good quarter.

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

A

Thank you, Larry. Appreciate the support.

Operator: Your next question comes from the line of Matt Koranda from ROTH Capital. Your line is now open.

Matthew Koranda
Analyst, ROTH Capital Partners, LLC

Q

Hey, guys. Thanks for taking the questions. Just wanted to start on 5.11. Could you guys comment maybe on just the – or break out the growth in in-store sales versus online? It's great to see the comp up in Q2 overall but how much did that kind of skew toward quite a bit of [ph] e-comm growth (00:36:32)?

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

A

Yeah. So, Matt, we don't break it out in that level. Typically I would say we don't break out what our same store sales growth is. We just wanted to do this because it's such a highly unusual time and because companies – I think there was a lot of concern about having a multi-channel retailer even though this is really an omni-channel company and it's a product company, it does have a retail component and I know there was a lot of concern out there. So we gave more granularity into kind of the growth rates than we typically would.

All that being said, I'll try to directionally give you some idea. Our e-commerce business was growing really rapidly sort of circa double what it was over prior year. Our retail business was down slightly and you would anticipate that being the case because we closed to the general public for one of the three months and then when we reopened we went to extremely limited kind of hours. So it was – obviously it skews towards e-commerce. I think when we talk about CapEx, and I know this isn't part of your question, but just to get out there a lot of the growth CapEx we're putting in right now is really enabling much more seamless consumer experiences between our e-commerce and our retail and as those lines get blurrier, frankly it gets a lot harder to be able to tell where you're generating revenue, is it coming because of the store, for example, if you order online and have it shipped from store do you give the store the credit or online, if you order online and pick up from store, does the store get a credit, where do returns come back, do they go against kind of online because it's multi-channel or does it go

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against the store. So this is going to continue to get blurrier and blurrier and I think that's why the convention has always been to look at same store sales as e-commerce being one box.

But kind of directionally the e-commerce was growing at a really rapid rate and we would expect that to continue to and I think the brands that are more e-commerce native like 5.11, they have the e-commerce side far and advance of having a consumer retail side. Those brands are holding up far, far better than brands that are mostly retail reliant with small e-commerce percentages.

Matthew Koranda
Analyst, ROTH Capital Partners, LLC

Q

Very helpful color. Thanks a lot. And then just a follow-up on 5.11. I mean – I guess my expectation would be that higher net numbers generally should translate or correlate in some rough way to your future consumer sales expectations. So could you help us kind of calibrate our expectations around that, because obviously [indiscernible] (00:39:34) big acceleration in data points there? Help us understand sort of how that does translate to the consumer sales side of 5.11 on a go-forward basis?

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

A

Yeah, I would say [indiscernible] (00:39:48) you're talking about background checks [indiscernible] (00:39:50) I'd say we see more of a correlation with that at Liberty than I think we've seen it 5.11. I mean I can't speak to – correlation is not causation, right, and when you buy a [ph] gun, hopefully you're getting the sales too (00:40:04). It's not quite that direct at 5.11 is what we see. So I caution you for making that direct comparison.

Matthew Koranda
Analyst, ROTH Capital Partners, LLC

Q

Okay. Fair enough. That's fair. And then just shifting gears [indiscernible] (00:40:18) and then one more follow-up just kind of overall, but on Foam – the Polyfoam add-on, help us kind of understand the positioning there? It looks interesting kind of with the exposure to cold chain storage, but maybe thoughts on does that change sort of the revenue growth outlook profile for Foam at all or the margin profile and the way that we should be modeling that going forward?

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

A

Not materially. I mean we're hoping to increase the margins on Polyfoam as we move forward. There's some synergies in any acquisition. It is more cold chain-related or concentrated than the rest of our business. So if you have a different view on the growth in the cold chain slightly it could, but it wasn't a huge – I mean you've seen the financial disclosures, wasn't a huge acquisition. So I wouldn't think it would change necessarily the profile that significantly.

Matthew Koranda
Analyst, ROTH Capital Partners, LLC

Q

Okay. Got it. And then just on the M&A environment overall guys, it sounds like obviously taking my takeaway from your prepared remarks is that you're going to be more aggressive in terms of your posture on M&A. I think you said exactly that. But anything you guys can provide in terms of details like bias toward add-ons versus platform, any quantification of the pipeline that you can help out with and just overall maybe Elias what are you seeing on the multiples front, has anything kind of shaken loose since the pandemic or is there a lot of money still kind of chasing fewer acquisitions that are available?

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

Yeah. So it's a great question, Matt. And your observation is correct, we have moved from being pretty much risk off and a net divesture to now being risk on and a net investor, and we think that when you have this kind of volatility that's caused by the pandemic, these are sort of the market dislocations. When a dislocation like this happen, it's the most opportune time to put money to work and really benefit our shareholders over the longer term. But generally what fuels the M&A market especially with competing private equity firms is access to credit markets, and the credit markets are really weak right now. I would say if you're a large public company borrower and the Federal Reserve as we know kind of dabbled into some investment grade bonds and that obviously pushed money out of IG and into lower class bonds, capital access has been much stronger, but if you're trying to do a middle market one-off acquisition the market for credit there, I don't want to say it's completely disappeared, but it's severely reduced.

And so as a result of that our private equity peer set is disadvantaged today relative to us where if you went back a year ago they were massively advantaged because credit standards were as loose as they've been in the 20-plus years I've been doing this and it was just fueling kind of a massive run up in prices. So that's sort of why we look at now as a great opportunity to be aggressive in M&A and frankly it's why we took a lot of balance sheet capital coming into the year and rose more capital because we want to take advantage of these conditions and we don't know how long these conditions are going to remain. Typically the public markets, capital markets heal, the private markets will heal with some type of lag. So there's probably a window that exists where this volatility is going to create an opportunity and then prices likely are going to rise pretty significantly.

Now all that being said, in the second quarter, with a lot of the government programs that got put in place, there wasn't a – the impetus for companies to be going out and seeking to do a transaction. And so if you had a good company that had liquidity, earnings were holding up, bringing your business out in the midst of the pandemic and testing the waters when who knows what the price discovery would look like, didn't really make a lot of sense.

So good companies pulled out of the market and companies who could be really stretched financially are getting access to government assistance that was keeping them from coming as quickly to the market. Now what we're starting to see is the beginning stages of that really change. We're hearing from a lot of the investment banking folks that we work within the M&A market that there is a lot of [indiscernible] (00:45:00) that are starting to happen. So that kind of puts a three to four month kind of lag as to when we would expect to see significantly more activity coming but for right now the markets were relatively muted.

Now that – for us, you asked whether we have a bias towards add-ons or platforms, we clearly are seeking to grow the number of platforms that we have. I think we've said on numerous occasions we have the human capital and the organization to be able to move to 12 to 15 platforms. We think that greater diversification within the portfolio is beneficial. It lowers the volatility of the portfolio. I think as we strive to continue to get ratings upgrades and having lower volatility in earnings, is clearly an important component to that but on top of that, in a market where you're not seeing a lot of new big opportunities come to market, for us to be able to go out and approach add-on acquisition where we may have already had contacts from before to continue to follow up on that, is probably more actionable in kind of the really near term but we're looking at both. I would just say that platforms are probably likely going to be a little bit kind of longer in the year – a little bit farther off in the year.

In terms of pricing, it's really hard to say right now because there's no price discovery because M&A has been so – really shut off in the second quarter. I will give you my hypothesis which is I think pricing may appear high when you look at COVID depressed earnings and so I think on a multiple basis what you see transact is going to be significantly lower than what the intrinsic value of the company would have been and significantly lower than a

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couple of years past but it may look high on a multiple depending on how much earnings are temporarily down. And so I think there will be good values to be had in the next kind of 12 to 24 months. I think beyond that when the credit markets come back – I would just tell you private equity capital has not contracted during this time, in fact it's probably expanding slightly during this time, mostly to the big established firm, but private equity capital is still growing and so that suggests that as credit markets come back a year, two years, three years from now asset prices are likely to revert right back to kind of levels that they were pre-pandemic.

Matthew Koranda
Analyst, ROTH Capital Partners, LLC

Q

Super helpful. Appreciate all the color [indiscernible] (00:47:54) thanks.

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

A

Thank you, Matt.

Operator: Your next question comes from the line of Kyle Joseph from Jefferies. Your line is now open.

Kyle Joseph
Analyst, Jefferies LLC

Q

Hey. Good afternoon, guys. Most of my questions have been addressed. Just one more on Marucci, obviously a challenging time for the business, but stepping back and if you can even think about this in the [indiscernible] (00:48:19) kind of ex-COVID can you give us your expectations for the overall size of that business and – given the addressable market and if you can kind of step back and do that pre-COVID?

David P. Swanson
Partner & Manager-East Coast Office, Compass Diversified Holdings, Inc.

A

Yeah, sure. Kyle this is Dave. So I would say clearly some headwinds this year and I think at least short into the medium term there'll be a little hangover just in terms of some inventory in the channel and maybe youth tournaments being down a little bit, but to your question I think we feel even better about kind of the medium term here and in particular due to the impact of the current environment on some of our competitors, so we feel like there is some nice opportunity to take some market share, expand the product offering, international opportunities, but with the hangover from this year in terms of maybe competitor discounting and inventory in the channel is likely to last a little while but – so hard to predict kind of timing, but we would expect this company to resume its growth profile when those – when that situation remedies.

Kyle Joseph
Analyst, Jefferies LLC

Q

Sure. Thanks. And then one follow-up for me, just you talked about e-commerce trends at 5.11, but looking at the other consumer companies, which companies have seen the biggest offset or the most benefit from a shift to e-commerce trends?

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

A

Yeah, Kyle. So I would say all of our companies on the consumer side have benefited from – their e-commerce side of their business has benefited and one of the things that – I think when we've chatted before we've talked to you about kind of getting our company the lines and in terms of their distribution channels making sure that e-

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commerce was becoming a larger component and really even more so than that, becoming less reliant on a physical footprint. And so for an Ergobaby and one of their other brands that's in there too, how do you create communities where if you're seeing the product walking through a Buy Buy Baby, that's great, but if that's going to be more limited in the go forward, how do you still get that sense of community that you need to have in order to pull and get product sales through that and we've really been emphasizing that with all of our companies.

When we talked about the restructuring that needed to happen at Velocity, part of it was bringing in a management team that understood that we needed to have – we needed to build communities, we need to be less reliant on the physical footprint that we were going through historically because those channels were just changing and so we've been working with our companies for, jeez, years now in being able to get ready for that and whether that's using social platforms to build communities or YouTube which is part of I guess social platforms but all the different aspects of being able to better connect to your customer and do that electronically and then to have distribution capabilities that go along with that has been something that we've been working really aggressively on with our companies.

So, I think it's one of the reasons you saw that our consumer businesses have performed as well as they have performed, right? I mean as a class our consumer businesses grew revenues and grew EBITDA year-over-year in the second quarter and that was enabled because they are – they have done all of these basic foundational things prior to. So Velocity is working really aggressively there.

I'll give you an example of a company that you would say well how does this lend itself to electronic distribution but one of the reasons Liberty Safe is doing so well is a couple of years ago we really kicked off an initiative and our management team there Steve Allred and Justin Buck have done just such an extraordinary job of being able to drive online sales and our online sales work a little differently where we actually partner with the dealers that we're working with to fulfill the orders, but we generate something like a third of the orders for our dealer network comes through our website. And for us it's great because we now are controlling that customer. So there are many benefits that come along with it, but we're talking about something that could weigh upwards of a ton and you say, well, that doesn't really lend it out to be e-commerce, you're right it doesn't, but you can still take steps to de-emphasize strictly the in-store experience and bring it more into an online experience and be able to work in that manner. And so we've been doing it across the board with our companies, and all of our companies experienced really strong growth in e-commerce demand. And I think it's why the consumer demand and revenue was as strong as it was.

Kyle Joseph
Analyst, Jefferies LLC

Got it. Very helpful. Thanks very much for answering my questions and congratulations on a good quarter.

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

Thank you, Kyle.

Operator: Your last question comes from the line of Robert Dodd from Raymond James. Your line is now open.

Robert Dodd
Analyst, Raymond James & Associates, Inc.

Hi, guys and congrats to you and the companies on a really impressive quarter in a bizarre environment. Some follow-ups really. On Velocity and Liberty kind of the outdoor, we've seen in obviously other data in terms

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consumers [indiscernible] (00:54:36) outdoor, et cetera. So that in hindsight is not that surprising but it did so well [indiscernible] (00:54:44) where we were a couple of months ago. But how confident are you that the demand you're continuing to see now is really end market demand versus inventory re-build? I mean in your prepared remarks you mentioned a couple of times that the inventory channels, the distributors and wholesalers were pretty thin because of the strength of demand, but – so how confident are you? Obviously so said you feel really good about it in July, August, any information, any data you've got that shows that's really flowing through to end user purchases versus just re-stocking?

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

A

Yeah, Robert. So right now what we're seeing is that the inventory levels of our partners are the lowest we've seen in years and in fact take a Velocity, for example, the biggest challenge, and you're right if you think about it, it's probably not surprising that some of the outdoor brands and kind of hobby things like this when you're limited in what you can do [indiscernible] (00:55:52) was going to grow. So we were all pleasantly surprised by that but I would say we think this is probably a little bit more durable in terms of the demand. Right now, I would say we are very confident that not only is this not just end market demand that's represented in the sales but our sales don't even represent the full end market demand because our inventory levels at our distributor partners are so low right now. And so we think there's a considerable period of just re-building inventory back up to the right level and frankly what we're seeing even in July right now is that demand at the store level, end demand, remains really robust and kind of elevated at levels significantly greater than where it was a year or two or three years ago.

So we feel very confident that this is – that this end market – this is all end market demand plus some – now whether this will – a year from now we'll still be talking about if there is a vaccine and there is better therapeutics and things are back to normal, then we'll address it then. But I would say for the immediate future I would – this business looks to have – these – both of those businesses look to have demand that is there to fulfill and more of the challenges on the supply chain and the manufacturing capacity that we have both at our Velocity and Liberty subsidiaries.

Robert Dodd
Analyst, Raymond James & Associates, Inc.

Q

Got it. Got it. I really appreciate that. I mean the obvious follow-up then is how fast could you increase that manufacturing capacity? Is that in the plan because obviously it doesn't look like – the growth CapEx increase sounds like it was mostly at 5.11 rather than putting another line in at Velocity, for example, so [indiscernible] (00:57:56)

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

A

Yeah. It takes a little bit longer. I mean part of it is we have complex supply chains, especially at Velocity, and our supplier partners are fully maxed out as well. And so it's not as easy to ramp up supply. When you're talking about demand growth that has been this material, it takes a little while to ramp it up. So, I would say in the near term, sort of 2020, it's going to be difficult to ramp supply up now. And Liberty, this is pretty big pieces of equipment and you're building safe. There is just constraints in terms of the physical location, getting new equipment in and I will tell you we're being a little bit cautious in that we recognize that the pandemic has created many dislocations that are out there. Look people aren't traveling right now, they're not doing other leisure activities, so there's more disposable dollars that can be used in other areas. They're doing more outdoor things. I would say what we are being guarded against is investing too much in supply growth to the extent that some of the demand increase is not long-term sustainable.

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So we'd like to – we would rather be more methodical with the way that we plan out the supply growth, the amount of investments that is really required and so we will bring on more supply. We're working aggressively to fill all of the demand and make sure that we can be good partners to all of our distributors, but at the same time we want to be responsible and not overbuild for given the current condition and as we all have to just appreciate the uncertainty today is greater than it's been kind of probably at any point in Compass' history, right, over the last 20-plus years and so we just need to be a little bit more cautious with the way that we plan supply growth.

Robert Dodd
Analyst, Raymond James & Associates, Inc.

Q

Got it, got it. I appreciate that. On [indiscernible] (01:00:17) 5.11 you talked about obviously increasing [ph] growth (01:00:23) capacity on the stores, lease signings, has given this disruption and the opportunity to be opportunistic. I mean is this creating an opportunity for maybe you to change which locations you pick? I mean are you aiming for what would have been a more expensive location before but now lease pricing is more reasonable given the environment. Can you give us any color on is anything changing about the selections of those and why are you signing the new leases and where are you signing the new leases now?

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

A

Yeah, right now we're still looking at the places that have been – the locations that have been proven to work for us, right? So through a signage we know the co-tenants that work well for us, stuff like that. We are not yet opening up 5.11 [indiscernible] (01:01:15), for example, and nor do I see that as near term in our future. So, I'd say we're able to find these locations easier now and kind of those ideal locations, the same ones that kind of fit our profile easier now and are able to drive better lease economics, but we're not yet sort of expanding the aperture to bet other kind of higher affluent mall.

Robert Dodd
Analyst, Raymond James & Associates, Inc.

Q

Got it. Got it. And then one more if I can on the acquisition front [indiscernible] (01:01:48) follow-up, so two questions. I mean you talked about obviously an additional platform acquisition sans diversification to the portfolio, at the same time a new platform acquisition in this environment given the level of uncertainty I think adds more risk to the portfolio versus given there is less known about that business versus an add-on, so I mean how would you [indiscernible] (01:02:16) said obviously that the platforms may be further out. But is that simply because the market and the due diligence for those takes time or you want to wait for more visibility, stability, information about how this pandemic's going to pan out before adding a platform and do the portfolio add-ons just make more sense given more is known about those industries and end markets at this point?

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

A

Yeah, and that's a – it's a great observation Robert. I mean clearly add-ons are less risk because we have the management team already in place, that's a platform we own and we have systems in place and we can generally plug those in, we know better about the industry. We – and thinking about new platforms, I would say right now, the reason I would say I mentioned it may be a little longer to transact on a new platform is because the M&A market for new platforms has really dwindled and we see fewer opportunities right now just because of the dynamics that I talked about earlier with kind of government stimulus and the banks have taken a much more kind of let's just wait and see approach, giving forbearance to companies and not really forcing action that would generally create a lot of kind of potentially good company bad balance sheet situations where it forces the

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business to recapitalize with a new owner such as Compass, so that's really the reason that I see it taking longer to do a new platform than an add-on.

Now to your question about risk profile, clearly I get your point and it's 100% the case. I think if we were to consummate a new platform it would have to be a really high quality company that we understood really well what the growth drivers were, what its downside risk was, the dynamics of the business and we would have to get comfortable because, as you stated, there is a greater level of uncertainty today than there was kind of a year or two ago when we had economic conditions that were supportive. Now you've got kind of the pandemic, you've got the economy that's more reliant on government assistance and so there's clearly more risk factors and so it does raise the bar in terms of what we would need to see for a new platform but there are some really – and, for example, I will just say we had seen some really high quality companies pre-pandemic that if they were to come back into the market we would be really excited because the quality of the company was such and the stability of their earnings were such that we would transact.

I'll point to Marucci, because Marucci truly is a pandemic-led opportunity that we were able to close on. It was pre-pandemic, but remember the pandemic was sort of raging throughout China and Asia at that point and was just starting to come into the US and as other buyers were being scared off from the property, I just tell you this is an asset that we looked at and said are we comfortable with what the earnings will look like in 2020 and, frankly, we thought at one point it would be zero. And so we're much more bullish about it now, and we think it will be significantly greater than zero.

So that is a good positive. But when we looked at the dynamics of this business and how strong it was, I mean this is an A business and you don't see opportunities like this that come along all the time. And so for us to be able to take advantage of a company of this quality with the type of growth profile, and trust me when we get out of 2020, we're all going to like the growth profile of Marucci and it's going to help diversify the growth of the overall business. It will be additive to growth and it will diversify away from 5.11 being sort of the strongest pillar of growth, so that we have more.

If we saw companies like Marucci, we would want to act on those because that's part of the opportunistic advantage that we have with our permanent capital model to be able to bring to bear. So we're out looking for these kind of A-type companies, like a Marucci, and I think in those type of businesses, we think they're the first to rebound. We're already seeing Marucci rebound and we believe it's much faster than where its competitors are and that's why Dave said, we think that this is actually net positive for Marucci because our competitors are being weakened, and we're coming out faster, so we're gaining more market share at their expense. If we can find other platform opportunities like that, that's the stuff that we're looking for right now and we would transact against.

Robert Dodd
Analyst, Raymond James & Associates, Inc.

Got it. Got it. I appreciate it and congratulations on an impressive quarter again. Thanks.

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

Thank you, Robert.

Operator: I am showing no further questions [audio gap] (01:07:36) like to turn the conference back to Mr. Elias Sabo.

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Elias J. Sabo

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

Okay. I would 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 in the future. That concludes our call operator.

Operator: Ladies and gentlemen, that concludes today's conference call. Thank you for participating. You may now disconnect.

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