

Lakeland Industries (LAKE): Niche protective clothing business; Executive Chairman wants to replicate the success of Transcat

- M.Cap: \$134M | Debt: \$11M | Cash: \$26M | EV: \$119M | The company manufactures and sells industrial protective clothing and accessories for the industrial and public protective clothing market worldwide.
- EV/Revenue: 0.9X
- Volume: 86,081
- Major shareholders: Private Capital: 16.7% | Royce: 9.4% | Dimensional: 7.8% | Pacific Ridge: 7.4% | Renaissance: 6.6% | Vanguard: 5.5%

I. BASIC

1. Niche business: Protective clothing

The company manufactures and sells mission-critical protective clothing and accessories for the industrial and public protective clothing market.

- Firefighting and Heat Protective Apparel
- High-End Chemical Protective Suits
- Limited Use/Disposable Protective Clothing
- Durable Woven Garments
- High Visibility Clothing
- Gloves and Sleeves

2. Signs of competitive advantages

- Barriers to entry
 - The global standards landscape is increasingly complex, with the U.S. and Europe developing their conformity assessments (ANSI/ISEA 125 and the PPE Regulation) that are not recognized internationally, allowing countries to impose their unique standards on imports. Additionally, developing nations are creating their standards, often to protect local markets rather than for worker safety, further complicating certification for companies aiming for global distribution. This variety in standards and certification processes significantly hinders international trade, presenting a substantial barrier to entry for companies seeking global market expansion.
- Superior lead time
 - The company claims that it has superior lead time relative to competitors, particularly within high-value, non-disposable products.
 - The company claims that operating its own manufacturing facilities provides a sustainable strategic advantage.
- Low capital-intensive business

II. SIGNIFICANT CHANGES

1. Management changes

- Aug 2023: Executive Chairman
- Oct 2023: CEO resigned (He served as CEO since Feb 2020)
- Feb 2023: CFO
- April 2023: COO

2. James M. Jenkins claims that he is trying to replicate Transcat (TRNS)

Replicate Transcat (TRNS; M.Cap: \$960M)

- In August 2023, the company appointed Jenkins as Executive Chairman.
- For more than 20 years, he served at a law firm in New York, and most recently, in September 2020, he joined Transcat as General Counsel and Vice President of Corporate Development. In the recent earnings call, he commented that he wants to replicate the M&A strategy adopted by Transcat at Lakeland Industries.
- Since 2016, Transcat's stock price has experienced an 11X appreciation. Transcat consistently executes small-ticket acquisitions.

Jim Jenkins

my background is I really have been moving on a strategic plan for Transcat in the M&A circles where we have pretty much done what we're trying to do at Lakeland

Gerry Sweeney (ROTH Capital)

I was going to say, Transcat, you absolutely expanded the addressable market, right, through the asset management side. So that's sort of what I'm seeing here.

Jim Jenkins

Exactly.

3. M&A strategy

Prior to 2022, the company had not made any acquisitions. Since December 2022, the company has started implementing a roll-up strategy.

- Eagle:
 - In December 2022, the company acquired UK-based Eagle Technical Products for \$10.5 million.
 - Eagle is a leading designer and provider of protective apparel for the fire and industrial sectors.
 - Even though specific revenue information has not been disclosed, this business contributed \$3.4 million in Q2 2024 and \$2 million in Q1 2024. Based on these figures, it is estimated that the business could add roughly \$10 million annually.
- Helmet:
 - In November 2023, the Company acquired New Zealand-based Pacific Helmets NZ Limited for \$8.6 million.
 - Pacific Helmets designs and manufactures helmets for various firefighting and rescue markets.
 - The company expects Pacific Helmets to contribute \$7 million to \$8 million in sales revenue.
- Jolly Scarpe
 - In February 2024, the company acquired Romania-based Jolly Scarpe for \$9.3 million.
 - Jolly Scarpe is a designer and manufacturer of professional footwear for the firefighting, military, police, and rescue markets.
 - The company expects Jolly Scarpe to contribute \$14 to \$16 million in sales revenue.

Interesting observations on the M&A: High quality acquisition?

a. All the acquisitions are predominantly focused on fire safety

- Eagle – protective clothing to the fire industry
- Helmet – helmet for fire fighters
- Jolly Scarpe – foot wear for fire fighters/military
- Why fire safety? According to the Q2 2024 earnings call, the global fire market is highly stratified and fragmented. The leading player holds a 10% market share, the

second player holds a 5% market share, and there are numerous small manufacturers.

b. Quality of acquisition

- As per Q2 2024 CC, Eagle generated 26.5% EBITDA margin, which is higher than the company's profit margin. In Q2 2024, Eagle's adjusted EBITDA accounted for 21% of the total adjusted EBITDA of the company- which is huge.
- Overall – Eagle acquisition has turned out to be an excellent acquisition based on the few data points.

4. Other changes

- On November 27, 2023, the company sold its office and warehouse facility in Brantford, Ontario to an unrelated party for \$4.9 million.

OUR COMMENT

Many M&A roll-ups don't succeed. However, the fact that the "Eagle" acquisition contributes 21% to EBITDA suggests that the company is making prudent investment decisions and not overpaying.

A lingering question is what motivated the board to pursue this M&A strategy. We speculate that behind-the-scenes influence from Private Capital Management could be a factor. This fund owns 16% of the outstanding shares. While this is conjecture and might be incorrect, it's worth noting that Private Capital is not typically an activist fund, only occasionally employing such tactics.