

Conference Call to Discuss Alpha Safety Acquisition

MODERATOR: Good morning and welcome to Cadre Holdings conference call. Today's call is being recorded. All lines have been placed on mute. If you would like to ask a question at the end of the prepared remarks, please press the star key, then the number 1 on your touch-tone phone. At this time, I would like to turn the conference over to Matt Berkowitz of IGB Group for introductions and the reading of the safe harbor statement. Please go ahead.

MATTHEW BERKOWITZ: Thank you, and welcome to Cadre Holdings conference call to discuss the acquisition of Alpha Safety. Before we begin, I'd like to remind everyone that during today's call, we will be making several forward-looking statements, and we make these statements under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements reflect our best estimates and assumptions based on our understanding of information known to us today. These forward-looking statements are subject to the risks and uncertainties that face Cadre and the industries and markets in which we operate. More information on potential factors that could affect Cadre's financial results is included from time-to-time in Cadre's public reports filed with the Securities and Exchange Commission.

Please also note that we have posted presentation materials on our website at www.cadre-holdings.com, which supplement our comments this evening. I'd like to remind everyone that this call will be available for replay through March 5. Webcast replay will be available via the link provided in today's press release, as well as on Cadre's website. At this time, I would like to turn the call over to Cadre's chairman and CEO, Warren Kanders.

WARREN KANDERS: Thank you. Good morning, and Thank you for joining today's conference call to discuss our agreement to acquire Alpha Safety. I am joined today by our President Brad Williams and Chief Financial Officer Blaine Browsers. Since our IPO in November 2021, we have signaled our intention to diversify Cadre's platform by targeting acquisitions of companies manufacturing engineered technical products in additional safety categories.

With the addition of Alpha Safety, we are pleased to deliver on that commitment. It's an ideal Cadre business. As a leading niche protective products manufacturer, it reinforces our focus on mission critical safety equipment, while significantly expanding Cadre's total addressable market. This transaction will immediately be accretive and represents an important first step in the strategy we have articulated over the last several years.

As we have mentioned before, Cadre's approach to M&A is patient, thorough, and disciplined. Our agreement to acquire Alpha Safety is consistent with this approach and advances our strategic focus on acquiring leading accretive high margin businesses, with mission critical products and recurring revenues.

While Brad and Blaine will provide more specific details in a moment, I would like to underscore, this is an excellent business with a protected market position, significant built-in growth with existing customers, and an attractive platform for additional M&A in this space. We look forward to partnering with Alpha Safety team to execute our growth plan and believe that the Cadre Operating Model will help to drive exceptional results.

Speaking more broadly, we are excited about working in this new vertical with the same approach we have utilized in our other businesses to grow organically and through M&A. Having said that, this is just one step in a larger strategy where we will seek to acquire companies in new verticals, making highly engineered technical products, with superior margins, protected market positions, and multi-dimensional growth opportunities.

In conclusion, I am very happy to be speaking about Alpha Safety with you today, because it is a great business with a fantastic management team and macros that we expect can produce solid returns. At the same time, what we look to maximize the value of Alpha, along with our other businesses, we will also continue to explore and think expansively about how we build our platform into new verticals and categories.

Along those lines, we believe we will be able to announce at least one additional transaction in this calendar year. With that, thank you for being with us today. I will turn the call over to Brad. Brad, over to you.

**BRAD
WILLIAMS:**

Thank you, Warren. On today's call, Blaine and I will provide an overview of Alpha Safety, outlining products and services, industry positioning, growth opportunities, and macro tailwinds supporting the business, followed by a Q&A session. I'll begin on slide 3 with a broader introduction to Alpha Safety and why we're so excited to acquire the business.

Founded in 1986, Alpha Safety is a global provider of highly engineered technical products and services, spanning the nuclear value chain. The acquisition represents an opportunity to integrate a leading niche technical products manufacturer and, as Warren mentioned, aligns with Cadre's focus on mission critical safety and survivability.

It has leading positions across all its key product lines and a large total addressable market, with long-term industry tailwinds that we'll discuss in greater detail shortly. With its leading niche market position, high cost of substitution, strong brand recognition and resiliency through market cycles, is an ideal fit, based on the established M&A criteria we prioritize.

It is also important to highlight that Alpha Safety as the sensible recurring revenue and highly visible growth prospects. Its partnerships with key customers are approaching 40-plus years, with high margin revenues tied to contracts and committed purchase orders. Full year revenues were 44 million in 2023, and EBITDA margins exceeded 20%

Now turning to slide 4, I'll provide a more detailed breakout of Alpha Safety's diversified suite of products and services. The company offers turnkey solutions to customers who rely on its decades of design, application, and technical know-how to protect critical operational personnel and the environment. Its products and services address three key nuclear missions-- environmental safety, national security, and nuclear energy.

Approximately 50% of Alpha's 2023 estimated revenues came from environmental safety efforts, which are a product of decades of US nuclear material processing and handling. The other 50% of 2023 revenues were split between national security and nuclear energy missions. National security missions reflect ongoing and expanding national defense initiatives.

For Alpha Safety, this involves material handling, storage and disposal solutions, as the US rebuilds its plutonium pit production. On the nuclear energy side, key missions served include decommissioning and decontaminating legacy nuclear power plants. Increasing global demand for sustainable energy sources will drive demand for both legacy and new nuclear power.

On the slide, you'll see that AOPA safety's products and services span the nuclear value chain and fall within six categories. By revenue, Alpha's largest offering is ventilation and containment products to contain and control radioactive and potentially hazardous contaminants. However, Alpha is best known for its engineered container systems, the SAVY-4000 proprietary system for handling and storing radioactive materials.

Specifically, Alpha offers both engineered and advanced transportation containers for handling and storing plutonium oxides, metals, powders, and byproducts, as well as for safe transportation and disposal of plutonium and related hazardous materials. Turning to the bottom of the slide, you'll see specialty filters and consumable products which are designed to handle and transport radioactive material and release flammable gases from waste drums.

The last two product categories are radiometric instrumentation and field services and maintenance. The instrumentation products are for monitoring radioactive material and assessing its composition and characteristics. And Alpha Safety has a team of physicists and engineers on staff who oversee their modeling design and application.

In terms of field services and maintenance, these include testing services used to determine the type and quantity of radioactive material present in an object or sample, as well as testing for the presence of dangerous flammable gases. It is also important to differentiate what is not in the scope of the Alpha Safety business.

The waste materials that the company is focused on are highly regulated, and the property of the Energy and Department of Defense not Alpha Safety. The company is not contracted to transport these materials or to clean up sites with waste. Alpha's role is designing products and monitoring solutions to protect professionals working in those hazardous settings.

Given the extreme importance of these missions, each customer demands best in class products, which means safety, reliability, and technical expertise throughout purchasing decisions over price. Turning to slide 5, you'll see that this acquisition will immediately expand Cadre's TAM. Whereas, we estimate our existing serviceable addressable market as about \$2 billion.

The domestic nuclear product's total addressable market is between \$3 and \$6 billion. Based on our commercial diligence as part of the acquisition, this includes products focused on the US government and domestic commercial nuclear market. We're excited to dig in after closing the transition, as we believe that there are targeted adjacent and value-added services components that can further enhance Alpha's product sell in.

While excluded from our initial addressable market, we believe that the international remediation market could yield an additional \$2 billion per year, as older reactors across Europe will require decommissioning and other Western countries have well-defined remediation budgets. Combined, this represents an opportunity of up to \$8 billion.

We believe that without the Safety's market leading platform and successful strategy in place, we are ideally positioned to build scale and meaningful expansion Alpha solution set in addressable market. We also plan to pursue add-on acquisitions, with which Blaine will discuss more in a moment after he covers macro tailwinds. Blaine, over to you.

**BLAINE
BROWERS:**

Thanks, Brad. Slides 6 and 7 highlight the macro tailwinds that add to why we view this as such an attractive business. First, the Department of Energy Budget supports long-term growth for the federal nuclear market. National Nuclear Security Administration Funding remains at historical highs with bipartisan support.

DOE Budgets increases show continued commitment to nuclear security, renewable energy, and environmental safety. Second, related to DOE, addressing its mounting environmental liability will result in increased government spending, fueling unparalleled demand for waste management, and radiation safety solutions. The majority of this is driven by cleanup missions, focused on legacy nuclear waste remediation across legacy DOE nuclear facilities.

The DOE's liability is expected to outpace remediation spending with continued cleanup efforts. Third, the nuclear energy market is well positioned for late decade growth to address clean energy gaps. As the next generation of nuclear power technology emerges, we'll see commercialization of advanced nuclear reactors, creating fresh opportunities for government contractors, like Alpha Safety.

Turning now to M&A opportunities on slide 8. We're excited about the platform that exists to realize synergies and enhanced capabilities and expand the customer base. Alpha Safety has a proven track record of executing M&A and strong sector relationships. Current management team has executed two acquisitions in the build out of the Alpha platform since 2021, and these proved to integrate successfully and further strengthen customer relationships.

The company has identified a large global pipeline of over 100 potential M&A targets, 12 of which are priorities, and 5 of which are in active dialogue. Because Alpha participates in a highly fragmented industry, there is an active, diverse pipeline of opportunities across multiple product and service offerings, typically, with high barriers to entry.

Additionally, the limited number of mid-sized acquirers drives the consolidation opportunity. As we think about specific acquisition targets, these are nuclear safety focused businesses that offer new capabilities with value-added protected products and services that will either increase wallet share of existing customers or expand the base.

As you all know, Cadre has always taken a patient disciplined approach to M&A and will continue to ensure any targets that we pursue meet our stringent M&A criteria. Before we go into Q&A, Brad will reiterate the strengths of the businesses on slide 9.

**BRAD
WILLIAMS:**

First and foremost, it syncs with Cadre's life-saving mission, also, safety offers highly engineered and extremely technical products and services, catering to critical specifications and high cost of failure applications. It has a protected market position and a highly visible and predictable revenue supported by long term contracts and recurring purchase orders. Its financial profile is strong, highlighted by EBITDA margins greater than 20%.

The addition of alpha safety expands Cadre's total addressable market significantly. And industry tailwinds will continue to drive at long-term sustainable growth opportunity. In addition to the successful strategy in place, propelling organic growth, there are actionable M&A opportunities to further broaden the Alpha suite of nuclear safety solutions to increase wallet share and add new customers. We can't wait to get started and begin the integration process. With that, operator, please open up the lines for Q&A.

MODERATOR: Thank you. If any participant would like to ask a question, please press the star, followed by the 1 on your telephone. That's star 1 to ask a question. One moment, please, whilst we wait for the Q&A. Our first question comes from the line of Matt Koranda of Roth MKM. Please go ahead.

MATTHEW KORANDA: Hey, guys, good morning, and congrats on the acquisition. Just wondered if you could, maybe, speak to Alpha's customer concentration, maybe just speak to customers, such as DOE or other agencies that represent a portion of their revenue. Any concentration there? And then maybe just talk about-- it looks like it was built through a series of acquisitions. Maybe just talk about the underlying organic growth rate that Alpha has experienced in the recent years and how we should think about that going forward.

BLAINE BROWERS: Yeah. So just, as you expect, Matt, the customer concentration is higher. There's not thousands of companies out there involved in this market. So when we think about it, it looks very different than the law enforcement market. Their top two customers account for a little bit less than half the overall revenue. And from there, that becomes a drop off, so you get the top 3, and you're slightly over 50%

But that's to be expected in this industry, right? It can be focused around Los Alamos, SLDA, really, these DOE sites. So it is a bit more-- quite a bit more than we're used to. I think the good news with Alpha is the long track record with these customers, the high predictability of the revenue, and in some cases, products that no one else offers, right? So there's customer concentration.

I think offsetting some of that is the entrenched relationships and the fact that there's no one else that can make products to the specification required for these solutions. We look at growth rates. It's varied by different end market, but these would be higher than we've seen the law enforcement market. So you're that 4 to 6 range, just depending on the end market. And that's a conservative 4 to 6, Matt. We think about the production, which is the plutonium production.

There's a large mandate out there from Congress to increase production rapidly. That could really change that dramatically. But I think conservatively, we always want to start with the high probability case, as we look forward to that 4 to 6, that mid-single digits. But there's certainly opportunity based on what's out there from new technology, congressional mandates, as well as clean up to push this higher than that, and that's the future.

MATTHEW KORANDA: OK, very helpful. Thanks for that, Blaine. And then just curious, Warren, I guess. Mentioned, perhaps, the capacity to do another acquisition this calendar year. Does that mean that you have another in the funnel that's close to the finish line. Just any elaboration in terms of what vertical that would be in, whether that's your core law enforcement, military product side or the new nuclear vertical.

Just curious about that. And then maybe, Blaine, if you talk about could talk about pro forma net leverage and comfort about where we could take the business, if we were to do another acquisition. And maybe just to put a bow on it that we're pro forma net leverage stands post-Alpha, if you could. Thank you.

BRAD WILLIAMS: Thanks, Matt. I'll pick up the M&A question, then Blaine will take care of the second part of that one. So from an M&A perspective, what that means when we talk about potentially closing another deal this year. It just shows, at this point, the confidence in the funnel that we've been talking about.

So far, at the beginning of this year, at the end of last year, and back to part of your question around, is it in this space, the nuclear space, or is it going to be in the law enforcement, military space. And the answer is, we'll see. Because the good news is we've got a healthy funnel in both of those spaces.

As we've been doing diligence on Alpha, we spent quite a bit of time with the leadership team there, talking through their funnel, what's in the funnel. And it seems like a pretty robust funnel, overall, in terms of the number of opportunities and ones that they've gotten to know folks and spent a lot of time within their industry. So we look forward to actioning those, as we continue to move forward on.

BLAINE BROWERS: So it's pro forma leverage, Matt. We're going to be just a tad under two. We still have-- we use cash, and then we delayed draw facility in our current term loan. So we think about that leverage side, still below what we've discussed that we'd be willing to go up to. Previously, we said in the low mid-3s is where we'd be comfortable. So with this and then the cash will generate forward in the year does give us that capacity to think about another sizable deal in the future.

MATTHEW KORANDA: OK. Very helpful, guys. I'll turn it over. Thanks.

BRAD WILLIAMS: Thanks, Matt.

MODERATOR: Thank you. Our next question comes from the line of Jeff Van Sinderen from B. Riley Please go ahead.

JEFF VAN SINDEREN: Good morning, everyone. And let me say, congratulations. Sounds like a terrific acquisition. And I'm just wondering, are you bringing over all of the Alpha Team, or is it just management and some of the employees? And then also, are there any redundancies back office type things that you can remove that would benefit expenses? And then maybe just, I guess, benefit that you think you can get from doing all that in terms of contribution margin once acquired?

BRAD WILLIAMS: Yeah, I'll take that one. Jeff. Hey, it's Brad. So on the team, as you know, as we talked through other acquisitions and as you know, a big part of our Cadre Operating Model is around talent development and associate engagement. And two very important pieces that we feel make are the makeup for success.

So as we went, we evaluated the Alpha organization, we spent significant amount of time with the three top folks in the business, so the CEO of the business, the gentleman that's over sales, business development strategy. And then there's another gentleman that leads. He's the COO and leads all operations and then also finance and that side of things.

High quality individuals are brought into the business. The CEO was brought into the business first and then part of his strategy, which aligns with us, which is you've got to build a great team. And from what we've seen so far, he's been able to do that. And that team brings a lot of experience, also, from the industry, which is great.

Because as you can tell from this business, highly technical, overall, in terms of products, engineering, field service maintenance, physicists on the team. Overall, there's about 125-- 120 associates, including seven nuclear physicists, 27 engineers, and 12 associates with DOD and DOE security clearances.

So the CEO, there's really built a great organization. And then as your second part of that question was around any synergies back office, that side of things. We're treating this business as right out of the gates as a standalone within the products reporting segment. And we'll begin with the Cadre Operating Model, just like we do with most of the businesses, as we bring them on board, as we talk about the past.

That speed varies based on the organization. So we'll begin to work with them. Roll up our sleeves, learn from them. They'll learn from us and begin to work through the Cadre Operating Model and then see how things go from there.

JEFF VAN SINDEREN: OK, great. That's helpful. And then I'm not sure. Maybe I missed this, but did you say how much of Alpha's business is recurring? Maybe you could just touch on how the backlog runs for them. And then, also, I was just wondering what their growth rate has been recently.

BLAINE BROWERS: They generally carry it. It looks more like Med-Eng. We think about it longer backlog, so well beyond what a lot of our business is carrying that 45 to 60 days. Because of that concentration and the long relationships, they tend to have a very high confidence entering the year on that 12-month period without a lot to finish for the year. So it feels a lot more like our EOD business, which is great.

Yeah, the growth-- there have been a couple acquisitions, but the growth has been stronger than earlier in that 4 to 6 range in the market. And we're excited just about the timing of this with the funding and the funding from the DOE as well is per production to ramp up. We think there's a real opportunity to have a very different-looking business from the core alley when it comes to growth.

JEFF VAN SINDEREN: Excellent. Thanks for taking my questions. I'll jump back in the queue.

BLAINE BROWERS: Thanks, Jeff. Thanks.

MODERATOR: Thank you. Our next question comes from the line of Daniel Imbro from Stephens, Inc. Please go ahead.

DANIEL IMBRO: Yeah. Hey, good morning, guys, and congrats on the deal. Brad, I want to start on the international opportunity. I think you said in the slides, it could be another \$2 billion of TAM internationally. I'm curious, does Alpha have a sizable international business today or contracts with some of those customers. And if not, would you be selling it through your existing relationships and distributors, or would this have to be a whole new sales team and sales process that gets built out as well?

BRAD WILLIAMS: No, not at this point, based on our diligence and upfront conversations with the team and looking at the selling side of the organization. The gentleman that I mentioned that leads business development strategy and sales side of things, I think, he's done a really good job to build the team and position them to go forward.

They're starting with what they know. So there's two higher profile in customers, one in Japan and one in the UK, where they already have business today. And they're continuing to work on relationships to expand to other products and services that they have within their portfolio. So it's really starting with those.

And you can tell from this type of business based on very robust budgets that are typically behind these cleanup projects or new build projects or decommissioning or commissioning type projects that the funding, once it's there, it's a very, very long term relationship. So I feel like the team has done a really nice job to work in those two accounts. And then their plans are to expand from there and begin to grow outside of that.

DANIEL IMBRO: Helpful. And then maybe a follow up on the margin for both Blaine and you. Brad, I guess you said in the slides above 20%. Any helpful framework or sizing where they fit today, Blaine. And then, Brad, as we think about your historical playbook, it is implement best practices, drive up margins, but typically that's easier to do when you have an expertise on the end market.

So I'm curious, when you look at Alpha's business today, do you still see the opportunity to take these above 20% margins and drive them higher with your best practices, or is this probably maybe less of a self-help opportunity because of the whole new vertical?

BLAINE BROWERS: Yeah. So starting with the EBITDA margins, as we said in the press release, greater than 20, but Daniel, it's less than 30. But I think there's probably talks to next steps. Yeah, this feels like a business that has the runway to get there, certainly not this year or next year. But when we think about the operating model and implementing that in a business like this, it feels like a real opportunity just because of that really highly technical products, really solving critical issues.

It's a great business to leverage the operating model with. And then gross margins, they're slightly accretive. We're always a little bit cautious on gross margin, Daniel. Out of the gates, we want to get into the books a little bit, make sure it's apples to apples in the margin, but it'll be accretive overall. And we'll fine tune it as we start integration post-close.

BRAD WILLIAMS: Daniel, I added the price question there. We'll use the same methods, right? That's in our Cadre Operating Model around pricing and power pricing and understand how the products are positioned in their space. And a lot of their cases, it's built on very long-term relationships and, quite frankly, products that were developed over many, many years with customer base.

And when it takes many years to develop a proprietary product to a customer, you can imagine how sticky that is, as the business goes forward. So we think there's opportunities there. We're not going to go in haphazardly. As you know, that's not our style on this. It's to do the homework, have the team do the homework, educate us, work with us, talk through it, work through some of the positioning, and grabbed the opportunity, which, so far, as you know, we've been very good at.

DANIEL IMBRO: Great. I appreciate all the color guys. Best of luck.

BLAINE BROWERS: Thank you.

MODERATOR: Thank you. Our next question comes from the line of Jordan Lyonnais from Bank of America. Please go ahead.

JORDAN LYONNAIS: Hey, good morning. Thanks for taking the question. Looking out long term for where you see the acquisition going, is the sense to stay in purely nuclear play or emulating something like special where it goes into synergies and overlaps with wastewater treatment, other industrial materials in that growth path.

BRAD WILLIAMS: Yeah. Hey, this is Brad. I'll take that one. So based on what we've seen so far in the business, there's plenty of runway with the demand in the three segments that we just had talked about earlier. So until we feel like we've maximized them opportunities within those three segments, then we won't be jumping outside of those segments in the wastewater, wastewater treatment world.

I've got a little history in those markets from another company. So we'll stick within what they define as their core which has a very strong value proposition, very strong, like we just talked about in Daniel's question from a pricing product and innovation perspective.

Great brands, great reputation for being problem solvers and rolling up their sleeves with their engineering team and their physicists and selling teams to work through these solutions and understand problems at the customer base and then solve them with excellent products and services. So that's what the team is going to stick with out of the gates. And we'll see from there.

**BLAINE
BROWERS:**

And maybe just to add on those markets, one way to frame this out is really three components. The US government. Plutonium pit production, which is increasing, right? There's a mandate, and there's a government accountability study that discusses that, right? That has that higher than GDP growth rate.

You then have the DOE site remediation, right? The second piece that, as we talked about, will require increased funding. And that should pick up pace as well. And then the third piece is really this domestic nuclear market with really power generation. And that's what Warren talked about in the opening remarks, where there is this clean energy.

Our new advanced reactors coming on board that provides that third place for that greater than GDP growth. So we feel like Denmark is, today, are pretty exciting and have a lot of opportunity, both organically, inorganically, and then I think what we're probably maybe most excited about as equally excited is the operating model, right? And continuing to work with the core team and optimize this business for it.

**JORDAN
LYONNAIS:**

Thank you so much.

**BLAINE
BROWERS:**

Thank you. Thank you.

MODERATOR:

Thank you. As a reminder, if you'd like to ask a question today, please press the star, followed by the 1 on your telephone keypad. That's star 1 to ask a question. Our next question comes from the line of Mark Smith of Lake Street Capital Markets. Please go ahead.

MARK SMITH:

Hi, guys. First question, for me, is just how important is the decommissioning market to this story and what is the outlook for that market.

**BLAINE
BROWERS:**

Yep. I think it's less the decommissioning and more about plutonium pit production, the DOE site remediation, and then new reactors coming on board. So maybe, indirectly, that last one lines up with it. But I'd say the larger core piece of the business is that US government side that goes with the pit production and site remediation.

We think through the three, those are the two that are a little more important to the business.

MARK SMITH:

OK, great. I just want to follow up on the international market for you for this business today. I don't know if you can quantify it. It sounds like there's some smaller pieces in Japan and UK, but I don't know if you can quantify how much of the business today is driven in international.

BLAINE BROWERS: We won't quantify it today. It's not a significant portion of the business today, but we do see real opportunity internationally. When I say we, that's not us. That is us and the Alpha Safety Team. That's something we talk a lot about during due diligence with the team. And they feel there's a real opportunity there. But we need to get our hands wrapped around it, and we'll talk about the future with the team and start to allocate resources appropriately.

MARK SMITH: OK, great. Thank you.

BLAINE BROWERS: Thank you.

BRAD WILLIAMS: Thanks, Mark.

MODERATOR: Thank you. There appeared to be no further questions at this time. Matt Berkowitz of IGB Group, I'll turn the call back over to you.

BLAINE BROWER: Thank you, operator. I'd like to thank everyone again for joining us. Brad, if you want to conclude.

BRAD WILLIAMS: Yeah, that's it, Matt. I was just going to say the same thing. So thanks, everyone, for joining. Again, super excited about this business, about that next journey that we've talked about ever since our IPO, which is to diversify Cadre overall and acquire companies that really meet that acquisition criteria that we have. So thanks for your focus and attention. Operator?

MODERATOR: Thank you. Thank you so much. This concludes today's conference call. We thank you for participating, and have a great day.