

Compass Diversified NYSE:CODI

Special Call

Thursday, December 4, 2025 10:00 PM GMT

Table of Contents

Call Participants	3
Presentation	4
Question and Answer	9

Call Participants

EXECUTIVES

Ben Avenia-Tapper

Vice President of Investor Relations

Elias Joseph Sabo

CEO & Director

Stephen Keller

Executive VP & CFO

ANALYSTS

Cristopher David Kennedy

*William Blair & Company L.L.C.,
Research Division*

Lawrence Scott Solow

CJS Securities, Inc.

Matthew Butler Koranda

*ROTH Capital Partners, LLC, Research
Division*

Robert James Dodd

*Raymond James & Associates, Inc.,
Research Division*

Ryan Patrick Shelley

BofA Securities, Research Division

Timothy Egan D'Agostino

*B. Riley Securities, Inc., Research
Division*

Presentation

Operator

Thank you for standing by, and welcome to Compass Diversified's conference call. [Operator Instructions]. Today's call is being recorded. [Operator Instructions]. I would now like to hand the call over to Ben Tapper, VP, Investor Relations. Please go ahead.

Ben Avenia-Tapper

Vice President of Investor Relations

Thank you, and welcome to Compass Diversified's conference call to discuss the restatement of our financial statements for the fiscal years 2022 through 2024. Representing the company today are Elias Sabo, CODI's Chief Executive Officer; and Stephen Keller, CODI's Chief Financial Officer. We are also joined by Pat Maciariello of Compass Group Management, LLC.

Today's call is focused on the restatement of our financial statements, our Audit Committee's internal investigation of Lugano, the actions we are taking in response and an update on our 8 other businesses, which have continued to perform during 2025.

Before we begin, I'd like to remind everyone that during the course of this call, CODI will make certain forward-looking statements, including discussions of forecasts and targets, future business plans, future performance of CODI and its subsidiaries and other forward-looking statements regarding CODI and its financial results.

Words such as believes, expects, anticipates, plans, projects, should, and future or similar expressions are intended to identify forward-looking statements. While these statements represent our best current judgment about future results, performance and plans as of today, our current results and operations are subject to many risks and uncertainties that could cause actual results and operations to differ materially from what we expect.

Except as required by law, CODI undertakes no obligation to publicly update or revise any forward-looking statements, whether because of new information, future events or otherwise. In addition to any risks that we highlight during this call, important factors that may affect our future results, performance and plans are described in our most recent SEC reports and press release.

During the call, we will refer to certain non-GAAP financial measures. Please note that references to EBITDA in the following discussions refer to adjusted EBITDA as reconciled to net income or loss from continuing operations in CODI's financial filings.

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

Elias Joseph Sabo

CEO & Director

Thank you, Ben, and good afternoon to everyone. Today, we will walk you through the fraud that occurred at Lugano and how it led us to the decision to restate our 2022, 2023 and 2024 financial results. We will also summarize the key findings of our Audit Committee's independent investigation and the remediation efforts we've already made and are continuing to make to people, processes and structure in response to the Lugano situation.

Finally, we will put this in the context of CODI's broader business and the performance we see across our other 8 subsidiaries. I want to begin by saying that this has been, without question, the most challenging period in CODI's history. We recognize the impact this situation has had on our shareholders, creditors, employees, and partners.

CODI has always taken pride in being a disciplined, transparent steward of shareholder capital, and that standard continues to guide every decision we make. There are 4 key messages I want you to take away from today's call. The fraud at Lugano was pervasive, complex and isolated to that business. In retrospect, Lugano was a unique unCODI-like acquisition in terms of structure, industry and capital intensity. Based on what we've learned, we are refining our acquisition criteria and governance expectations. We are making changes designed to further enhance our people, processes and structure, building on our long track record of accountability and transparency. Four, CODI's diversified business model has been battle-tested. Our remaining subsidiaries continue to collectively perform and support our focus on deleveraging, regaining market confidence and maximizing shareholder returns going forward.

For anyone who hasn't followed our situation closely, in early May, we announced that our Audit Committee had initiated an investigation into the financing, accounting and inventory practices of Lugano. In that same release, we announced that Lugano's founder and former CEO had resigned and stepped off the Lugano Board without severance. It is our understanding that shortly

after the investigation was initiated, he and his family fled the U.S. and permanently relocated to Israel. The Audit Committee's investigation has now concluded and the findings are deeply troubling.

What the Audit Committee discovered was deliberate and systemic fraud. The former Lugano CEO engaged in a scheme to significantly overstate Lugano's sales and profits, misrepresent the existence and value of Lugano's inventory and keep potential financial liabilities off Lugano's books and records. His efforts to hide his fraud were extensive. He created fake sales transactions to inflate Lugano's reported revenues, claimed inventory that either didn't exist or didn't belong to Lugano and entered into numerous unreported financing arrangements with third parties that he kept off Lugano's balance sheet.

These arrangements directly violated multiple CODI policies as well as the terms of CODI's intercompany credit agreement with Lugano. In support of his fraud, he relied on a complex network of undisclosed counterparties and financing arrangements, and prepared false documents and records to support these transactions and evade detection by CODI's management and auditors. Importantly, the Audit Committee's investigation found no evidence that this fraud extended beyond Lugano to CODI or to any of CODI's other subsidiaries.

Further, the Audit Committee's investigation makes clear that the former Lugano CEO's actions were not mistakes or errors in judgment. This was intentional fraud carried out through a deliberate scheme to bypass controls that were put in place to prevent this type of misconduct. This fraud persisted for multiple reporting periods and increased in magnitude.

Before I move on, I want to take a minute to explain why this situation has been so personally and professionally challenging. When we decided to acquire Lugano 4 years ago, we did so on the basis we do for every acquisition on its financial merits. But I was especially excited about this opportunity because it appeared to closely align with CODI's core values. Lugano presented itself as a company that made community service a fundamental part of its business model. Its customer-only club, for example, required significant philanthropic commitments before a client could even be invited.

The former CEO, among other owners, was an Ellis Island Medal of Honor recipient, an award given to individuals who have distinguished themselves through service to humanity. To later discover that these initiatives were only a facade for fraud, greed and personal gain has been deeply disappointing. At CODI, our values are not a marketing exercise. They guide us because we believe it is the right way to do business and because we believe they differentiate us in a way that ultimately benefits our shareholders. What we uncovered at Lugano is fundamentally inconsistent with our philosophy.

With that background, I'll now hand the call over to Stephen to explain how the events at Lugano impacted our financial statements for the periods we restated.

Stephen Keller
Executive VP & CFO

Thanks, Elias. Early in the investigation, the Audit Committee confirmed that the fraud and financial misconduct were isolated to Lugano. Our other 8 subsidiaries were not involved and there has been no change in our other subsidiaries previously reported financials. Our corporate structure and business strategy were purposefully designed to ensure the operating challenges at one subsidiary do not directly impact our other businesses.

We believe our ability to continue to drive growth collectively across all our other subsidiaries amidst this backdrop of fraud is a testament to the resiliency of the CODI business model and to the strength of our operating teams. The fraud committed by the former Lugano's CEO impacted CODI's financial statements in multiple ways, all of which will be detailed in our as-filed financial statements, which we anticipate filing very shortly.

At a high level, the restatement significantly reduced our reported inventory. Consolidated inventory for 2024 was reduced by greater than \$375 million or nearly 40%. All of this is related to Lugano. It also brought into our balance sheet additional short-term debt related to previously undisclosed financing arrangements at Lugano. And further, Lugano's revenue declined by more than 85% from previously recorded levels following the removal of the fraudulent revenue.

All of these adjustments will be reflected in our financial statements. And again, they are all driven by changes in Lugano's financials. Ultimately, the Lugano business was significantly smaller than initially reported. As a result, its cost structure was misaligned with its true scale and it generated significant losses. Inventory levels were materially below what we had previously understood. Lugano at the direction of the independent Board of Directors filed for Chapter 11 protection on November 16, 2025 and commenced a Section 363 sale process.

Lugano expects recovery from the sale of existing inventory, refunded taxes as well as potential insurance claims, civil recoveries and other sales of assets. Lugano's recoveries, net of expenses, will be distributed to Lugano's creditors. CODI is Lugano's senior secured creditor, but all recovery is subject to court approval. Regardless of what we ultimately recover from Lugano bankruptcy, the cost of the Lugano fraud will by a wide margin represent the most significant loss CODI has experienced since its inception.

I do not want in any way to minimize that fact. With that acknowledgment, I do want to describe several structural offsets to the Lugano loss that will lessen the impact of CODI's shareholders over time. These offsets include a tax shield on future capital gains, roughly equivalent to the loss we realized at Lugano, a recoupment of overpayment of management fees paid by CODI to the manager during the impacted periods, all of which we expect to be completed by the end of 2026, a reduction in profit allocation payments due to loss we realized at Lugano.

In connection with the Chapter 11 process, Lugano will be deconsolidated from CODI's consolidated financial statements effective as of the bankruptcy filing date. The bankruptcy isolates Lugano's financial and legal obligations to the bankruptcy of [state]. While painful, Lugano's Chapter 11 process provides a defined and orderly progression to bring the Lugano matter towards resolution.

I want to now turn -- I want to turn now to the steps we are taking as a result of what the Audit Committee's investigation uncovered at Lugano. While our ownership model and governance framework have supported a long and successful track record across our subsidiaries, this situation has reinforced that we must always look for ways to improve. At the conclusion of the investigation, we conducted a thorough assessment and are implementing enhancements to our processes, structures and controls.

These actions build on rather than replace the framework that has served our shareholders well over many years and are designed to further strengthen our risk management and enhance our oversight. Lugano was a departure from a capital-light cash flow-positive professionally managed businesses that have driven our success for over 2 decades. Uniquely, we partnered with a founder who retained significant ownership, continued to serve as CEO and was instrumental in most aspects of the business.

While we took steps to address this after the acquisition, he exploited the ownership structure and concentrated key man risk to circumvent our controls. Based on these learnings, we are refining our acquisition criteria and governance expectations, so overreliance on a founder CEO, coupled with a typical industry-specific practices will be avoided in future acquisition decisions.

Further, we are focused on strengthening our compliance, risk management and internal audit functions. We have made the decision to move to an outsourced model and expect to add an additional risk and compliance oversight role, reporting directly to our Audit Committee. We believe an outsourced model will allow us to more easily scale our internal audit resources to the size and complexity of our business at any given time. Further, it will allow us to add specialized resources with relevant industry experience to meet the changing needs of our subsidiaries.

Finally, an outsourced model will also allow us to better leverage and adopt industry best practices as they evolve. Outside of risk and compliance, we are also working to introduce refinements to our acquisition process including the standardization of guidelines for deal structuring and post-close management, supplemental due diligence requirements and stronger credit committee oversight approval and monitoring of all intercompany loans to our subsidiaries.

Finally, we are working on modifications to our management services agreement to create even greater alignment between our external manager and CODI's shareholders and to ensure that management fees overpaid over the course of our Lugano ownership are fully offset by the end of 2026. These actions are intended to augment and reinforce the processes we have in place so we can operate more effectively and continue our emphasis on ethics and compliance and deliver strong results for shareholders over time.

I will now hand it back to Elias to provide an update on the rest of our subsidiaries.

Elias Joseph Sabo
CEO & Director

Thanks, Stephen. Despite a choppy macro environment, collectively, our other 8 subsidiaries continue to perform. These businesses are category leaders that operate in attractive markets, cater to enthusiastic customers, and we believe are well positioned to deliver strong and durable financial results.

In addition to filing the restated financials, we intend to file our first, second and third quarter 2025 financials over the coming weeks. So I can't share as much detail about 2025 performance as I'd like at this time. However, in the aggregate, excluding Lugano, we have been driving growth in both sales and EBITDA. We're encouraged by the progress we are seeing across our diverse brands. For example, BOA is driving share gains across multiple footwear categories based on real and measurable performance improvement. The Honey Pot is now the fastest dollar growth, Better-for-You Feminine Care Brand in the market.

Meanwhile, anyone who has followed the recent rare earth discourse knows Arnold Magnetics can play an important role in providing companies with domestically produced rare earth magnet solutions. And Altor, we believe, sits in a prime position to capture long-term growth in the attractive cold chain market. We believe we have exceptional subsidiaries across both our consumer and industrial verticals that isn't to disregard the inherent uncertainty in the global economy today. While no businesses are immune to broader economic headwinds, we believe our subsidiary businesses are navigating them as effectively, if not better than most.

I'll now pass it back to Stephen once more to quickly discuss our path to reduce leverage and our financial outlook for the remainder of the year.

Stephen Keller
Executive VP & CFO

Thanks, Elias. Before I walk you through our deleveraging plans, I want to clarify where we sit today. Our leverage ratio is significantly above our leverage covenants and also above where we'd like to operate from a long-term risk perspective. We are in active discussions with our senior lenders regarding the amendment to our credit agreement that will provide additional flexibility around our current leverage profile.

Based on the progress of those discussions, we currently expect to finalize and announce amendment in the coming weeks. I'd also like to take a moment to walk through our leverage in more detail as there are several structural and operational factors that work in our favor. Excluding Lugano, we would expect our leverage ratio to drop from above 6x now to approximately about 5.6x. When you then factor in the expected growth in our full year 2025 subsidiary adjusted EBITDA, we expect to end 2025 with a leverage ratio of around 5.2 to 5.3x.

This is still clearly outside our current covenant at 5x. However, it is significantly lower than one might anticipate given our current situation. To quickly get back into compliance and to move closer to our long-term target level between 3 to 3.5x, we have a dual-pronged approach. First, we are focused on ensuring that our subsidiaries continue to perform and drive solid growth in EBITDA and cash flow. We believe that based on the strength of our underlying businesses, we can organically return to compliance in 2026. Second, although our business model is to acquire, manage and grow our subsidiaries, we believe that it's prudent to explore the divestiture of one or more of our subsidiaries in the near term to accelerate our deleveraging. To that end, we are actively working with our investment banking partners to look for ways to maximize value for shareholders, and we will be disciplined in our execution. Management is committed to reducing leverage, and we continue to drive sales and EBITDA growth at the subsidiary level.

Finally, I'd like to briefly address our outlook for the remainder of the year. At the start of the year, we guided to subsidiary adjusted EBITDA of \$570 million to \$610 million, including Lugano. We now expect full year subsidiary adjusted EBITDA of \$330 million to \$360 million, excluding Lugano.

On a like-for-like basis, this represents mid-single-digit plus growth in subsidiary adjusted EBITDA excluding Lugano, and it is consistent with our original guidance. We expect to publish our quarterly results in the coming weeks, and we'll provide more detail on that. Because we haven't yet filed our 2025 Qs, I'll also provide a brief note on our current liquidity position.

As of September 30, our most recent quarter close, we had \$65 million of consolidated cash on hand \$6 million drawn and just under \$4 million of letters of credit outstanding on our \$60 million revolver. We expect our subsidiaries to continue to generate meaningful cash flow as we move throughout the year.

I'll now pass it back to Elias for some closing remarks.

Elias Joseph Sabo
CEO & Director

As we move forward, we are operating with a renewed sense of purpose, determination and focus. We recognize the gravity of Lugano fraud and the impact it had on our shareholders and other stakeholders. We are committed to rebuilding your trust and we'll do that through the transparency, accountability and discipline that have defined CODI since inception. We provide permanent and patient capital focused on driving long-term value creation at each of our subsidiaries.

We acquired controlling interest in high-quality, high-growth mid-market companies. Our long-term focus has enabled us to acquire and manage innovative and disruptive businesses that deliver outsized growth. We believe that this approach generates superior returns and our track record supports that. We also pride ourselves on appointing and working closely with high-quality management teams to deliver on the potential of each of our subsidiaries.

As we've described today, we are taking meaningful steps to strengthen our processes, structures and controls and to sharpen our acquisition criteria and governance so that a situation like Lugano is not repeated. Meanwhile, our remaining 8 businesses continue to perform, and we believe CODI's business model has been tested and proven resilient.

We are committed to demonstrating once again how successful this strategy has been and can continue to be, notwithstanding our experience with Lugano. We are focused on reducing leverage, regaining market confidence and maximizing long-term returns for our shareholders. I would also like to take this opportunity to thank our subsidiary leadership teams and employees who have continued to execute at a high level and remain focused on serving customers throughout this entire process.

Finally, I want to recognize the broader CODI team for their hard work and professionalism. Nothing about this experience has been easy, and we greatly appreciate their dedication and perseverance. As always, thank you for your continued support. With that, Stephen and I will now take your questions. Operator, please open the line.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Chris Kennedy of William Blair.

Cristopher David Kennedy

William Blair & Company L.L.C., Research Division

Thanks for the update. We understand you're focused on reducing leverage. But can you just talk about the philosophy of returning capital to common shareholders going forward?

Elias Joseph Sabo

CEO & Director

Yes, Chris, I would say our first priority is to reduce leverage because I think that is good for everybody in the capital structure. And clearly, being out of compliance is with our senior debt, it makes it kind of requirement #1. We also have kind of in working with our bondholders. When we issued this, we kind of had notionally always established and with the rating agencies that we would have a 3.5x kind of ceiling on leverage for our normal operations. And so just to be clear, we feel that is the most important thing to do is to divest assets and harvest free cash flow from our businesses to get down below that leverage level.

Once we get there, I think we'll have to assess, to be honest, what our capital allocation strategy is. We do believe in return of capital. As you know, it has been a historic pillar to what we have done. The form in which that would take and how that would exist is really going to be based on the facts and circumstances at the time. So it's hard for me to say right now where we're sitting, what return of capital policies will take effect after our leverage gets back down to an appropriate point. But it is something that has been a pillar of what we have done, and we will address that as kind of we get our -- as we bring our leverage down to a more reasonable point.

Cristopher David Kennedy

William Blair & Company L.L.C., Research Division

Understood. And then just broadly, I know we'll get the financials over the next couple of weeks. But across the 8 businesses, are there any standouts in terms of performance relative to expectations, either good or bad?

Elias Joseph Sabo

CEO & Director

Yes. I would say there's a couple. I'm just going to hit on the outliers because most of the things are, frankly, within sort of a small band of what our expectations are. Probably the two largest outliers, one positive, one negative. The negative I'll say, is Arnold Magnetics. With Arnold the kind of political, I guess, football or the trade wars that have been created with China have caused significant problems with export control licenses on any type of rare earth material or finished product from a rare earth material.

Arnold does have a big presence in China. Most of the product that we produce there is exported, and a lot of it is used in the aerospace and defense industries. Because of the way that China set up their export controls, it was just impossible for the company to comply -- for us to be able to comply with what their requirements were. So virtually all of that product got delayed in shipping for, I don't know, call it, 5, 6 months over the course of the negotiations between the U.S. and China and that's going to have a negative impact this year on what their operating results.

I think the good news is we are seeing as a result of that significant orders coming in and demand being placed. And frankly, the RFQs that are coming out from some of our customers looking to redomicile their supply outside of China is quite significant. So although negative in the short term, I would say we think is net bullish over the kind of immediate to long -- kind of intermediate to long term, even starting in next year.

On the positive side, the Honey Pot has really performed far better than expectations. It is now the fastest growth in terms of dollar value in the feminine care market. In the United States, it's continuing to take shelf space. We moved very successfully from the hygiene category and now have extended the brand into the menstrual category. It really opens up a huge part of the market. And I think, more importantly, also demonstrates the expandability of this brand into adjacent categories within feminine care. And so that company's growth rate, both top line and EBITDA, is significantly exceeding what our expectations were. I'd say everything else, Chris, is kind of within a 5% band of where our expectations probably are.

Operator

Our next question comes from the line of Larry Solow of CJS Securities, Inc.

Lawrence Scott Solow
CJS Securities, Inc.

Welcome back. Just first question, just following up on Chris' question on '25. I realize you're somewhat compromised. But could you just give us any high-level view on free cash flow? I know, obviously, Lugano was kind of the drainer there, so hoping that free cash flow is at least commensurate with your EBITDA growth.

Stephen Keller
Executive VP & CFO

Yes. So I'd say two things. One, we obviously -- as you said, we -- Lugano was always a working capital hog. The other businesses actually generate very significant free cash flow. And so the other businesses collectively together are generating very substantial free cash flow. The only caveat I would have to say, though, is that obviously, there's a meaningful amount of investigation and restatement related costs that outside of subsidiaries that we are having to use some cash for that. But the businesses themselves are doing very -- are generating significant free cash flow.

Lawrence Scott Solow
CJS Securities, Inc.

Okay. And if I could just squeeze in 2. Just will we get the restated financials tonight? Is that coming out very shortly imminently? And then can you just discuss the Lugano, just the Chapter 11 proceedings, kind of the length of it? I realize it's in the court hands, so some of it had your control, but kind of the next steps we should look for on that side of it.

Stephen Keller
Executive VP & CFO

Sure. So yes, you can expect us to file the financials shortly, probably not today, but it will be -- but shortly. On the Lugano bankruptcy, where the process is, is actually today is -- I think today is the last day for people to object to the original filings. It then moves into a process like the 363 process, assuming there's no objection, they would move forward. There'd be -- I think the bids are available on the -- would have to be submitted by the 11th -- maybe 11th to 12th. And then the -- we do know that we -- after the 363 filing that we signed 15 -- the credit committee signed 15 NDAs with interested parties who want to participate in the auction. So there does seem to be some interest there. So basically, we'll kind of see where we stand.

I think the one thing that's important, though, is there's -- unless someone buys as a going concern, think of it as an orderly liquidation of the existing inventory. That will be a defined period. There will also be a recovery of the taxes, that will take a little bit longer. There is a significant amount of taxes that was overpaid, around \$70 million. That would expect to go back to Lugano state. That's obviously not fully in management controls. You have to file amended tax returns, et cetera. And so we expect that to take -- a lot of it to come back relatively soon and then some could take up to 3 years. But the intention is to continue to just make sure that, that credit committee and the Chief Restructuring Officer is focused on maximizing recovery and that's what they're doing, obviously overseen by the bankruptcy court, not by us.

Operator

Our next question comes from the line of Timothy D'Agostino of B. Riley Securities.

Timothy Egan D'Agostino
B. Riley Securities, Inc., Research Division

Kind of following up the last question regarding legal proceedings and any overhang with Lugano bankruptcy. For '25 results when they come out, should we expect obviously heightened legal fees and expenses? And can you just provide any color around that?

Stephen Keller
Executive VP & CFO

Yes. So you'll see a substantially elevated amount of kind of corporate overhead costs driven by the restatement and the investigation. So probably -- again, probably around -- I think you can expect about \$50 million to \$60 million of additional costs that will be accrued for.

Timothy Egan D'Agostino

B. Riley Securities, Inc., Research Division

Okay. Great. And then just if I can ask a second one here. I don't believe you provided any updates at Velocity and like their '25 performance. I was wondering if you could just touch on that very quickly.

Stephen Keller

Executive VP & CFO

I mean, Velocity is -- after the sale of Crosman, Velocity is a very small part of our portfolio. They're performing relative -- they resized their business on a like-for-like basis. They are doing okay. They're doing, I mean, pretty well, but it's a very small part of the portfolio at this point.

Operator

Our next question comes from the line of Matt Koranda of ROTH Capital.

Matthew Butler Koranda

ROTH Capital Partners, LLC, Research Division

I wanted maybe just first, Stephen, if you could just give a quick rundown of what the balance sheet look like as of September 30. I know you just quickly gave, I think, revolver metrics, but just full debt on the balance sheet as of 9/30. And then just clarify for us, I think I'm clear on this, but I want to make it totally clear. There are no obligations to Lugano creditors that are going to be retained on the balance sheet. Those would all be wiped and essentially with Lugano and the Chapter 11 proceeding.

Stephen Keller

Executive VP & CFO

Correct. So that's a little bit of a tricky thing. So the -- once it's deconsolidated as of November 16, 2025, then there will all be -- all those things will be wiped. It will be elevated at the end of the quarter -- Q3 just because they'll still have -- we'll still have those short-term kind of off-balance sheet debt that will now be on balance sheet. So that's where -- the right way to think of it is I think -- again, I think the first 3 quarters of this year, which will still consolidate Lugano in our first 3 quarters. They will be -- again, I think you just think of -- they will just be a little bit messy because of that. Once we deconsolidate, then there'll be a much more cleaner state. But again, our total net debt should be -- kind of excluding Lugano piece will be about \$1.9 billion, a little bit under \$1.9 billion.

Matthew Butler Koranda

ROTH Capital Partners, LLC, Research Division

Okay. All right. That's helpful. And then just wanted to hear a little bit more about how we're thinking about asset sales. I guess, I wanted to hear your philosophy, Elias, on how we think about knocking down net debt because obviously, you've got some really good core assets that are unaffected by this that either maybe you want to retain because they're really healthy for the long run, but maybe also would be good opportunistic divestitures that would immediately help you on the leverage front. So I just wanted to hear a little bit more about how you're thinking about divestitures?

Elias Joseph Sabo

CEO & Director

Sure. So I would say, Matt, in general, and this has always been the case, at the right price, all of our businesses are for sale. And that is always going to be the case, and it always has been the case. And so we've always said that all, I guess, now 8 of our companies are open and available for sale. In terms of how we approach and would target the market and which companies, we, as you know, do not say what companies we are bringing to market or thinking about engaging in potential divestiture transactions with. However, I would say our philosophy here is there are a few assets that we think are kind of timely to be able to divest right now where the market backdrop is accommodated and where the valuation could be interesting to CODI's stakeholders and provide with meaningful deleverage.

And so we are with multiple of our assets in different stages of conversations about a potential kind of process. Some could be all the way to appointing an investment banker. Some could be a little bit earlier than that. But our goal would be to have a few companies that we are approaching market and what we believe is that it's not to say we're going to sell a few companies, Matt, but it's very difficult if I said, hey, we're going to take one company out, and we're going to hang all of our hopes that, that one company sells, okay, we could guarantee a sale, but we may not like the price.

And so we're going to put a couple of companies kind of out in market, put out feelers, see where kind of valuation is, and then we'll hone in on an asset or two that will allow us to achieve kind of meaningful deleveraging. We are keeping in mind having kind of assets that we want as a core that could kind of over time serve as a good base to rebuild from. Those assets would need to fetch a far higher price, obviously, for us to be able to divest. But in general, I would say there's a couple of -- we're looking at this situation as unique and we may need to forgo some future opportunity on a great asset if we can get a great price today because it assists in the deleveraging efforts, which we think is sort of from a strategy standpoint, the #1 top priority and it trumps sort of the longer-term strategy of what we hold over time just because of the need to get our leverage down and the need to restore confidence back in the market.

Matthew Butler Koranda
ROTH Capital Partners, LLC, Research Division

Okay. Very fair. If I could just sneak one more in. I guess the question about incremental restatement costs has already been asked. But what I wanted to get a sense for is what happens with corporate expense if we ex out Lugano? And once we're through with some of the restatement costs, I would assume that should be substantially lower over time. Any sort of bracketing you're willing to do there for us?

Stephen Keller
Executive VP & CFO

Yes. So for sure, obviously, the restatement costs are onetime and they're not part of the ongoing things. I think you can think of on the management fees, I think you've heard us talk and I have heard Elias talk before that we think that -- so first, in 2026, those will be down substantially, primarily because we overpaid in previous periods, and we'll be earning those costs back. So cash costs will be much lower.

In terms of corporate over -- the public company costs and corporate and other costs, I would say they'll be kind of a little bit more on par. There would -- and then -- yes, it's a little bit of a smaller business. We made some decisions to add some resources in internal audit and risk and clients just kind of to make given the kind of situation that we're in. So those costs will be on par, but for a slightly small business. So we've increased them a little bit because of the additional support that we're going to be providing. Reduction is going to come from management fees.

Operator

Our next question comes from the line of Robert Dodd of Raymond James.

Robert James Dodd
Raymond James & Associates, Inc., Research Division

And sort of related to that question. On the incremental investments, I mean, you mentioned you're going to an outsourced model, adding more staff, separating the fact that the corporate overhead might be flattish versus where it was before. But can you give us an idea of like how much incremental cost are you thinking into the business on a go-forward basis in terms of additional compliance, risk management, et cetera. So I mean how -- if it's flat, how much is the mix? Just how much more money you're spending on monitoring, et cetera, between internal new hires, et cetera, plus you mentioned going to obviously an outsourced model for parts of it.

Stephen Keller
Executive VP & CFO

Yes. So again, for the -- so actually, all of the risk management, including this new resource that we've identified will all be outsourced. We made a decision to outsource that risk and compliance and risk management as an internal audit. Again, what I would say is, the best way to say is the cost -- the total cost should be very -- the total cost for a public company should be only slightly higher, but again, it's on a slightly smaller business without Lugano. So we've increased cost from that -- on a relative basis, but not absolute.

Robert James Dodd
Raymond James & Associates, Inc., Research Division

Okay. Fair enough. And then if I can, on -- if we move past Lugano, like the next kind of big business for this one was BOA. And I think you made some comments about it at the beginning that I think it was doing pretty well, and you've obviously given some updates on some of the other businesses. But how are design wins, et cetera, going for BOA/tariffs having any impact? Because obviously, that's probably now your most significantly valuable business.

Elias Joseph Sabo
CEO & Director

Yes, Robert, for sure, it is our most valuable business, I would say. And just based on its multiple in its size. And it continues to perform extremely well. In terms of customer wins, we continue to get more placement. Our Alpine strategy is going really well and now moving kind of into the uppers and lowers on having both systems. We just are broadly getting a lot more wins. In terms of -- so from that standpoint, I would say it's business as usual. They continue to plug along, getting kind of similar type of double-digit SKU growth that we kind of work year-over-year. So the company is doing well on SKU count, I should say.

In terms of the tariffs, you remember, like this and PrimaLoft are both ingredient brands. And so the tariffs actually don't impact either of those companies. However, they will impact the products that those companies products go on. So if we go on a piece of footwear that is made in China and then sold in the U.S., and it's got a 40% tariff, obviously, our brand partner has to figure out how they're dealing with that and whether they're pushing through that cost.

So it's clearly from a standpoint of unit volume, you clearly have seen some headwind in all consumer products. And I would say it's fair to say that both BOA and PrimaLoft are experienced. Their customers are experiencing those same headwinds due to tariff costs, but those are not directly impacting. The tariff costs do not impact BOA or PrimaLoft at any level other than kind of that indirect through our customers' kind of unit volume that's happening.

I will mention one thing about BOA, and that is we have -- there's -- we do, do some business in Asia with all of the trade wars that are going on or the tariffs and then kind of retaliation that's happening. We do find in one of our Asian markets, some revenue that has fallen off, but the rest of the business is growing and making up for it. And it was expected as we were going through this. And so it's not -- it's performing right in line with what we would have expected. But I would say if there's a negative to what's happening in trade, it's kind of the political climate is spilling over into the international business opportunity. BOA saw it a little bit. But really, all of our businesses are finding international business harder to -- it's harder today than they would have, call it, a year ago before tariffs and retaliatory measures have been put in place.

Operator

[Operator Instructions] Our next question comes from the line of Ryan Shelley of Bank of America.

Ryan Patrick Shelley
BofA Securities, Research Division

My question was surrounding litigation following everything that happened with Lugano. So both ways, can you just give us an overview of litigation you're pursuing against both the founder as well as participants in the fraud. And then if there just -- if there's any litigation currently outstanding against CODI itself?

Stephen Keller
Executive VP & CFO

Yes. So a couple of things here. You have to little bit separate Lugano from CODI in this particular case because again, Lugano is now in the control of the bankruptcy court. A lot of the claims that will be pursued will be pursued by Lugano with -- and to the extent there's recovery, we would expect to get that as kind of senior secured. But Lugano is pursuing a lot of different avenues specifically civil recoveries against the former CEO. There are some lawsuits that have been announced, and I'm sure they're going to -- there'll be additional things that they're working through. That will be -- that's an important part -- to the extent that if there's anyone else, any other third parties who are involved in the schemes, I think you would expect the Chief Restructuring Officer to pursue all avenues to recover.

In terms of -- so Lugano will be very -- Lugano, the bankruptcy and a Chief Restructuring Officer, we believe, will be very aggressive to pursue all avenues. From our perspective, there will be -- we will also look at any opportunities for recovery from -- at the CODI level. But again, those will be more related to our investment than anything that happened as part of the investment as opposed to Lugano going after the people involved in Lugano business. There obviously have been -- in terms of other lawsuits, there have been a number of lawsuits that have been filed both shareholder lawsuits as well as CODI being named in lawsuits related to Lugano things.

Most of those at the bankruptcy had stayed most of those lawsuits, and we would expect the lawsuit that were named that are really lawsuits against Lugano, we would expect those to be dismissed from our perspective. But there are a number of lawsuits that have been filed, and we'll obviously defend ourselves vigorously.

Ryan Patrick Shelley

BofA Securities, Research Division

Got it. Got it. So it sounds like most of the lawsuits would be related to activity at Lugano, not at CODI level?

Stephen Keller
Executive VP & CFO

Yes, I mean, look, there will be lots of people who name CODI in lawsuits related to Lugano. Our expectation is that those should be -- that we're not the right -- that those should be just focused on Lugano.

Operator

I would now like to turn the conference back to Ben Tapper for closing remarks. Sir?

Elias Joseph Sabo
CEO & Director

This is Elias. Thank you all for your time today, and we look forward to talking with you in the next couple of weeks as we file our financials and get caught up through Q3, and we plan on having a call to discuss our year-to-date financials after we file our Q3 financials. Thank you.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

Copyright © 2025 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

© 2025 S&P Global Market Intelligence.