



BY FENWICK HOW

THE APERTURE METHOD™ · PHASE 02 — QUANTIFY

Meridian Precision Fabrication, LLC

Financial Analysis & Profit Map

PRIVATELY HELD · FAMILY OWNED · S CORPORATION · 28 YEARS IN OPERATION

MODULE	Aperture Analytics™
ENGAGEMENT	APM-2026-MPF
INDUSTRY	Precision metal fabrication — contract manufacturing
CONTACT	Raymond Meridian, President & Owner
EMAIL · PHONE	r.meridian@meridianprecision.example · +1 (319) 555-0142
WEBSITE	meridianprecision.example
LOCATION	Cedar Rapids, Iowa
FISCAL YEAR END	31 December
PERIODS	FY2022 · FY2023 · FY2024 · FY2025
UNITS	\$ thousands
PREPARED BY	Fenwick How
DATE	16 August 2026
SOURCE	Reviewed financial statements FY2022–FY2025; management schedules for normalisations

02

Executive summary

HEADLINE JUDGEMENT

Revenue has compounded at 9.3% across four years while adjusted EBITDA margin has held near 15%, which is a genuinely good result in contract fabrication and the reason this business is worth discussing at all. Two things qualify it. First, roughly 30% of adjusted EBITDA is normalisation rather than result — defensible, mostly documented, but it means a third of the earnings a buyer is pricing has to be proved rather than shown. Second, the owner still holds the key commercial relationships personally, which is precisely the risk a buyer prices into the low end of the range.

The balance sheet has strengthened materially: debt has fallen from 3,980 to 2,860 while the business funded 550 of capital expenditure from its own cash flow. That is the strongest evidence in the file that the earnings are real.

REVENUE 18,400 \$ thousands	GROSS MARGIN 31.3% FY2025	OPERATING MARGIN 8.7% FY2025	NET MARGIN 7.5% FY2025
RETURN ON ASSETS 13.7% average balances	RETURN ON EQUITY 28.5% average balances	CURRENT RATIO 2.33× FY2025	FREE CASH FLOW 1,013 \$ thousands

BUSINESS ACTIVITIES

Contract precision metal fabrication — laser cutting, forming and welding — supplying agricultural equipment, HVAC and specialty vehicle OEMs from a single 74,000 sq ft plant. Work is won by competitive quote against drawings supplied by the customer, on blanket orders and project releases rather than long-term contracts. There is no proprietary product and no aftermarket, so the business earns its margin on quoting accuracy, throughput and scrap control rather than on price.

Reportable segments	Single operating segment; management reviews the business as one plant
Revenue streams	Contract fabrication on blanket orders and project releases; no proprietary product, no aftermarket
Geographies	Upper Midwest United States; all sales domestic
Fiscal year end	31 December

REPORTING AND AUDIT

Basis of preparation	Reviewed — no opinion
Auditor	Hartley & Voss, CPAs, P.C. — engaged since 2014
Opinion	Review — limited assurance, no opinion
Internal control over financial reporting	Not required (private / non-accelerated filer)
Departs from the standard unqualified form	Not applicable — not audited

Analytical procedures and enquiry only. No transaction testing, no confirmations. Limited assurance is a long way short of an audit.

CRITICAL AUDIT MATTERS AND CONCERNS RAISED

None. Critical audit matters are a feature of an audit report and do not arise in a review engagement — which is itself the point worth making to the reader. Nobody has told you which estimate in these statements was hardest to support, because nobody tested them.

The judgements most exposed on the evidence available: revenue recognition timing on project releases spanning a period end; work-in-progress valuation; and the adequacy of the obsolescence provision against slow-moving raw stock.

Executive summary (continued)

RISK FACTORS CARRIED FORWARD

Customer concentration — the top three customers are roughly 47% of revenue, on blanket orders rather than contracts.
Key-person dependence — quoting, pricing authority and every significant customer relationship sit with the owner personally.
Cyclical end markets — agricultural equipment demand moves with commodity prices and is the largest single exposure.

SUBSEQUENT EVENTS

A replacement fibre laser was ordered after the period end at a committed cost of approximately 620, to be financed by equipment loan. It is not in the FY2025 balance sheet and materially changes the FY2026 capex and debt picture.

BINDING CONSTRAINT — CANDIDATES

Candidate 1 — Customer concentration. The top three customers are 47% of revenue. This caps the multiple more effectively than any operational improvement could raise it. Disconfirming evidence would be long-dated contracts with switching costs rather than blanket orders.

Candidate 2 — Owner dependence. Commercial relationships, pricing authority and quoting all sit with the owner. Disconfirming evidence would be a second quoter with independent authority and a customer who names someone else as their contact.

Candidate 3 — Capacity. Capital expenditure has run above depreciation for three years and revenue per employee is rising, which suggests the plant is absorbing growth rather than constraining it. This is the weakest of the three candidates and is listed to be dismissed.

Entity profile

Ownership status, legal form and basis of preparation are established before any figure is computed, because each governs what the figures can be compared to.

Ownership status	Private — family owned — Owner-managed. Expect compensation and expenses that reflect the family rather than the market.
Legal form	S corporation · Pass-through taxation
Contact	Raymond Meridian, President & Owner — r.meridian@meridianprecision.example · +1 (319) 555-0142
Location	Cedar Rapids, Iowa · meridianprecision.example
Basis of preparation	Reviewed — no opinion · default evidence confidence Medium
Founded	1998 — 28 years in operation
Current ownership since	2016 — 10 years
Lifecycle stage	Growth — revenue compounding at 9.3% a year
Headcount	96 at FY2025 · revenue per employee 191,667 USD

WHAT THIS MEANS FOR THE ANALYSIS

Evidence weight A review provides limited assurance only. The accountant has not tested the numbers.
The tax line is not comparable A s corporation pays no material entity-level income tax. Net margin, return on assets, return on equity and earnings per share are all structurally overstated against a taxpaying peer. Comparisons in this report are drawn on operating margin and EBITDA for that reason.
Value has to be constructed With no observable price, valuation rests on normalised earnings and an evidenced multiple range. The range is the answer; the base case alone would be a false precision.

Normalisation schedule

A privately held income statement is prepared to minimise tax, not to present performance. Each item below is a claim that a cost would not exist under different ownership, carrying the grade of evidence supporting it. Reported figures remain on the face of the statements; this is a reconciliation, not a restatement.

NORMALISATION	CATEGORY	FY2025	FY2024	FY2023	FY2022	EVIDENCE
Owner compensation above market rate Owner draws 560; market rate for a GM at this scale benchmarked at 240 (three regional comparables)	Owner compensation above market	320	300	285	—	Documented
Owner base compensation — replaceable by a hired manager SDE basis only; excluded from adjusted EBITDA	Owner base compensation (SDE only)	240	235	230	—	Documented
Related-party rent above market Premises leased from a family LLC at 396; market appraisal 300	Related-party rent or charges above market	96	96	90	—	Documented
Personal expenses run through the business Two vehicles, country club, non-business travel — from general ledger review, not vouched	Personal expenses run through the business	74	68	62	—	Estimated
Non-working family on payroll Two family members on payroll; management states no operating role. Not yet corroborated.	Non-working family on payroll	85	85	80	—	Asserted by management
Non-recurring legal — supplier dispute settled FY2025 Counsel invoices and settlement agreement on file	Non-recurring / one-off items	60	—	—	—	Documented
Total — Adjusted EBITDA basis		635	549	517	—	
Total — SDE basis		875	784	747	—	

RECONCILIATION TO NORMALISED EARNINGS

RECONCILIATION	FY2025	FY2024	FY2023	FY2022
Operating income	1,600	1,450	1,350	1,150
Add: depreciation and amortisation	480	440	410	—
EBITDA as reported	2,080	1,890	1,760	—
Add: normalisations	635	549	517	—
Adjusted EBITDA	2,715	2,439	2,277	—
Seller's discretionary earnings	2,955	2,674	2,507	—

Normalisations represent 31% of reported EBITDA in FY2025. Items graded **asserted by management** are hypotheses until documented, and at the multiples applied in this report each dollar that fails in diligence removes several dollars of value.

Valuation

CONSTRUCTED VALUE

ADJUSTED EBITDA OF 2,715 FOR FY2025	LOW	BASE	HIGH
Multiple applied	4.00×	5.00×	6.00×
Indicative enterprise value	10,860	13,575	16,290
Less: net debt	(2,220)	(2,220)	(2,220)
Indicative equity value	8,640	11,355	14,070

The range is the answer. A multiple summarises what comparable businesses actually sold for, and it imports their growth, their customer concentration and their management depth — none of which belong to this business. Quoting the base case alone converts a genuine uncertainty into a false precision.

Source of the multiple range: DealStats — NAICS 3323/3327 precision metal fabrication, US lower middle market, EBITDA \$1–5m, closed transactions 2023–2026, n=38; interquartile range 4.1×–5.9× adjusted EBITDA

AGAINST THE STATED PRICE

A price of 14,000 implies **5.97×** Adjusted EBITDA, which sits inside the evidenced range.

COMMENTARY

The range rests on a transaction set of 38 lower-middle-market fabricators, which is thin but the best evidence available at this size. Two factors would move this business within the range rather than outside it: customer concentration (the top three customers are 47% of revenue, which a buyer will discount) and the fact that the owner still holds the key commercial relationships personally. Both are addressable, and addressing them is worth more than negotiating the multiple.

Balance sheet

BALANCE SHEET (\$ THOUSANDS)	FY2025	FY2024	FY2023	FY2022
CURRENT ASSETS				
Cash and cash equivalents	640	512	430	355
Receivables, net	2,980	2,760	2,510	2,240
Inventories	2,420	2,180	1,950	1,760
Other current assets	145	130	120	110
Total current assets	6,185	5,582	5,010	4,465
NON-CURRENT ASSETS				
Gross property and equipment	8,900	8,350	7,900	7,500
Less: accumulated depreciation	4,780	4,300	3,860	3,450
Net property and equipment	4,120	4,050	4,040	4,050
Other assets	95	95	90	85
Total assets	10,400	9,727	9,140	8,600
CURRENT LIABILITIES				
Accounts payable	1,540	1,420	1,300	1,180
Accrued compensation	380	350	320	290
Accrued liabilities	220	205	190	175
Short-term and current portion of long-term debt	520	500	480	460
Total current liabilities	2,660	2,475	2,290	2,105
NON-CURRENT LIABILITIES				
Long-term debt	2,340	2,760	3,150	3,520
Other long-term liabilities	120	115	110	105
Total liabilities	5,120	5,350	5,550	5,730
SHAREHOLDERS' EQUITY				
Common stock	10	10	10	10
Retained earnings	5,270	4,367	3,580	2,860
Total shareholders' equity	5,280	4,377	3,590	2,870
Total liabilities and shareholders' equity	10,400	9,727	9,140	8,600

Income statement

INCOME STATEMENT (\$ THOUSANDS)	FY2025	FY2024	FY2023	FY2022
Revenue / net sales	18,400	17,250	15,900	14,100
Cost of sales	12,650	11,900	10,900	9,650
Gross profit	5,750	5,350	5,000	4,450
OPERATING EXPENSES				
Selling, general and administrative	4,150	3,900	3,650	3,300
Operating income	1,600	1,450	1,350	1,150
NON-OPERATING				
Interest expense	185	205	220	240
Interest and investment income	5	4	3	2
Income before income taxes	1,420	1,249	1,133	912
Income tax expense	42	38	34	28
Net income	1,378	1,211	1,099	884

Cash flow statement

CASH FLOW STATEMENT (\$ THOUSANDS)	FY2025	FY2024	FY2023	FY2022
OPERATING ACTIVITIES				
Net income	1,378	1,211	1,099	—
Depreciation and amortisation	480	440	410	—
Change in receivables	(220)	(250)	(270)	—
Change in inventories	(240)	(230)	(190)	—
Change in accounts payable	120	120	120	—
Change in other working capital	45	40	30	—
Net cash from operating activities	1,563	1,331	1,199	—
INVESTING ACTIVITIES				
Capital expenditure	(550)	(450)	(400)	—
Net cash from investing activities	(550)	(450)	(400)	—
FINANCING ACTIVITIES				
Repayments of debt	(400)	(390)	(370)	—
Dividends paid	(485)	(409)	(354)	—
Net cash from financing activities	(885)	(799)	(724)	—
RECONCILIATION				
Net change in cash	128	82	75	—
Cash at beginning of period	512	430	355	—
Cash at end of period	640	512	430	—

Common-size analysis — balance sheet

Each line expressed as a percentage of total assets. Vertical analysis removes size from the comparison and leaves structure: what the business owns, and how that mix is shifting.

BALANCE SHEET (% OF TOTAL ASSETS)	FY2025	FY2024	FY2023	FY2022
CURRENT ASSETS				
Cash and cash equivalents	6.2%	5.3%	4.7%	4.1%
Receivables, net	28.7%	28.4%	27.5%	26.0%
Inventories	23.3%	22.4%	21.3%	20.5%
Other current assets	1.4%	1.3%	1.3%	1.3%
Total current assets	59.5%	57.4%	54.8%	51.9%
NON-CURRENT ASSETS				
Gross property and equipment	85.6%	85.8%	86.4%	87.2%
Less: accumulated depreciation	46.0%	44.2%	42.2%	40.1%
Net property and equipment	39.6%	41.6%	44.2%	47.1%
Other assets	0.9%	1.0%	1.0%	1.0%
Total assets	100.0%	100.0%	100.0%	100.0%
CURRENT LIABILITIES				
Accounts payable	14.8%	14.6%	14.2%	13.7%
Accrued compensation	3.7%	3.6%	3.5%	3.4%
Accrued liabilities	2.1%	2.1%	2.1%	2.0%
Short-term and current portion of long-term debt	5.0%	5.1%	5.3%	5.3%
Total current liabilities	25.6%	25.4%	25.1%	24.5%
NON-CURRENT LIABILITIES				
Long-term debt	22.5%	28.4%	34.5%	40.9%
Other long-term liabilities	1.2%	1.2%	1.2%	1.2%
Total liabilities	49.2%	55.0%	60.7%	66.6%
SHAREHOLDERS' EQUITY				
Common stock	0.1%	0.1%	0.1%	0.1%
Retained earnings	50.7%	44.9%	39.2%	33.3%
Total shareholders' equity	50.8%	45.0%	39.3%	33.4%
Total liabilities and shareholders' equity	100.0%	100.0%	100.0%	100.0%

Common-size analysis — income statement

Each line expressed as a percentage of revenue. The gap between the gross-margin line and the operating-margin line is the operating cost structure, and its movement is usually the story.

INCOME STATEMENT (% OF REVENUE)	FY2025	FY2024	FY2023	FY2022
Revenue / net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	68.8%	69.0%	68.6%	68.4%
Gross profit	31.3%	31.0%	31.4%	31.6%
OPERATING EXPENSES				
Selling, general and administrative	22.6%	22.6%	23.0%	23.4%
Operating income	8.7%	8.4%	8.5%	8.2%
NON-OPERATING				
Interest expense	1.0%	1.2%	1.4%	1.7%
Interest and investment income	0.0%	0.0%	0.0%	0.0%
Income before income taxes	7.7%	7.2%	7.1%	6.5%
Income tax expense	0.2%	0.2%	0.2%	0.2%
Net income	7.5%	7.0%	6.9%	6.3%

Horizontal analysis — income statement

Period-on-period change, with compound growth across the full span. Read alongside the common-size tables: growth without margin is volume bought, not value created.

INCOME STATEMENT (% CHANGE)	FY2023	FY2024	FY2025	CAGR
Revenue / net sales	12.8%	8.5%	6.7%	9.3%
Cost of sales	13.0%	9.2%	6.3%	9.4%
Gross profit	12.4%	7.0%	7.5%	8.9%
OPERATING EXPENSES				
Selling, general and administrative	10.6%	6.8%	6.4%	7.9%
Operating income	17.4%	7.4%	10.3%	11.6%
NON-OPERATING				
Interest expense	-8.3%	-6.8%	-9.8%	-8.3%
Interest and investment income	50.0%	33.3%	25.0%	35.7%
Income before income taxes	24.2%	10.2%	13.7%	15.9%
Income tax expense	21.4%	11.8%	10.5%	14.5%
Net income	24.3%	10.2%	13.8%	15.9%

Horizontal analysis — balance sheet

BALANCE SHEET (% CHANGE)	FY2023	FY2024	FY2025	CAGR
CURRENT ASSETS				
Cash and cash equivalents	21.1%	19.1%	25.0%	21.7%
Receivables, net	12.1%	10.0%	8.0%	10.0%
Inventories	10.8%	11.8%	11.0%	11.2%
Other current assets	9.1%	8.3%	11.5%	9.6%
Total current assets	12.2%	11.4%	10.8%	11.5%
NON-CURRENT ASSETS				
Gross property and equipment	5.3%	5.7%	6.6%	5.9%
Less: accumulated depreciation	11.9%	11.4%	11.2%	11.5%
Net property and equipment	-0.2%	0.2%	1.7%	0.6%
Other assets	5.9%	5.6%	0.0%	3.8%
Total assets	6.3%	6.4%	6.9%	6.5%
CURRENT LIABILITIES				
Accounts payable	10.2%	9.2%	8.5%	9.3%
Accrued compensation	10.3%	9.4%	8.6%	9.4%
Accrued liabilities	8.6%	7.9%	7.3%	7.9%
Short-term and current portion of long-term debt	4.3%	4.2%	4.0%	4.2%
Total current liabilities	8.8%	8.1%	7.5%	8.1%
NON-CURRENT LIABILITIES				
Long-term debt	-10.5%	-12.4%	-15.2%	-12.7%
Other long-term liabilities	4.8%	4.5%	4.3%	4.6%
Total liabilities	-3.1%	-3.6%	-4.3%	-3.7%
SHAREHOLDERS' EQUITY				
Common stock	0.0%	0.0%	0.0%	0.0%
Retained earnings	25.2%	22.0%	20.7%	22.6%
Total shareholders' equity	25.1%	21.9%	20.6%	22.5%
Total liabilities and shareholders' equity	6.3%	6.4%	6.9%	6.5%

Return decomposition

Return on assets separates into two questions that have different answers and different remedies: how much the business earns on each unit of revenue, and how much revenue it generates from each unit of assets. A margin problem and a productivity problem look identical in the ROA line and require opposite responses.

DUPONT DECOMPOSITION	FY2022	FY2023	FY2024	FY2025
Net income	884	1,099	1,211	1,378
Revenue	14,100	15,900	17,250	18,400
Average total assets	—	8,870	9,434	10,064
Average total equity	—	3,230	3,984	4,829
Profit margin (PM)	6.27%	6.91%	7.02%	7.49%
Asset turnover (AT)	—	1.79×	1.83×	1.83×
Return on assets = PM × AT	—	12.39%	12.84%	13.69%
Financial leverage (avg assets ÷ avg equity)	—	2.75×	2.37×	2.08×
Return on equity = PM × AT × Leverage	—	34.02%	30.40%	28.54%

Ratio analysis

RATIO	FY2022	FY2023	FY2024	FY2025
PROFITABILITY				
Gross margin	31.6%	31.4%	31.0%	31.3%
Operating margin	8.2%	8.5%	8.4%	8.7%
EBITDA margin	—	11.1%	11.0%	11.3%
Pre-tax margin	6.5%	7.1%	7.2%	7.7%
Net profit margin	6.3%	6.9%	7.0%	7.5%
Effective tax rate	3.1%	3.0%	3.0%	3.0%
RETURNS				
Return on assets (avg)	—	12.4%	12.8%	13.7%
Return on equity (avg)	—	34.0%	30.4%	28.5%
Return on invested capital	17.2%	19.3%	19.7%	20.7%
LIQUIDITY				
Current ratio	2.12×	2.19×	2.26×	2.33×
Quick ratio	1.29×	1.34×	1.37×	1.42×
Cash ratio	0.17×	0.19×	0.21×	0.24×
Working capital	2,360	2,720	3,107	3,525
Working capital ÷ revenue	16.7%	17.1%	18.0%	19.2%
EFFICIENCY				
Asset turnover (avg)	—	1.79×	1.83×	1.83×
Fixed-asset turnover (avg)	—	3.93×	4.26×	4.50×
Inventory turnover (avg)	—	5.88×	5.76×	5.50×
Days inventory (DIO)	—	62d	63d	66d
Days sales outstanding (DSO)	—	55d	56d	57d
Days payable outstanding (DPO)	—	42d	42d	43d
Cash conversion cycle	—	75d	77d	81d
LEVERAGE				
Total liabilities ÷ equity	2.00×	1.55×	1.22×	0.97×
Debt ÷ equity	1.39×	1.01×	0.74×	0.54×
Debt ÷ total assets	46.3%	39.7%	33.5%	27.5%
Financial leverage (assets ÷ equity, avg)	—	2.75×	2.37×	2.08×
Net debt	3,625	3,200	2,748	2,220
Net debt ÷ EBITDA	—	1.82×	1.45×	1.07×
Debt incl. leases ÷ EBITDA	—	2.06×	1.72×	1.38×
Interest coverage (EBIT ÷ interest)	4.79×	6.14×	7.07×	8.65×
CASH FLOW				
Operating cash flow margin	—	7.5%	7.7%	8.5%
Free cash flow	—	799	881	1,013
Free cash flow margin	—	5.0%	5.1%	5.5%
Cash conversion (CFO ÷ net income)	—	1.09×	1.10×	1.13×
Capex ÷ revenue	—	2.5%	2.6%	3.0%
Capex ÷ depreciation	—	0.98×	1.02×	1.15×
Dividend payout ratio	—	32.2%	33.8%	35.2%
Shareholder returns ÷ FCF	—	0.44×	0.46×	0.48×

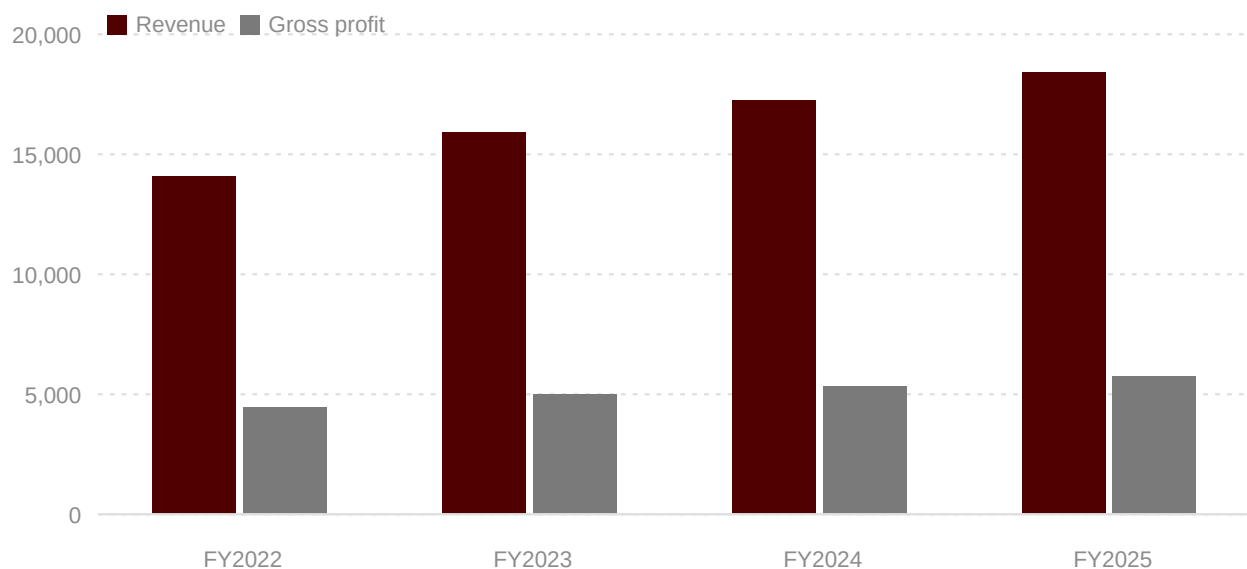
Ratio analysis (continued)

RATIO	FY2022	FY2023	FY2024	FY2025
NORMALISED EARNINGS				
Adjusted EBITDA	—	2,277	2,439	2,715
Adjusted EBITDA margin	—	14.3%	14.1%	14.8%
Seller's discretionary earnings (SDE)	—	2,507	2,674	2,955
Normalisations ÷ reported EBITDA	—	29.4%	29.0%	30.5%
PRODUCTIVITY				
Revenue per employee	167,857	180,682	187,500	191,667
Operating income per employee	13,690	15,341	15,761	16,667
VALUATION — OBSERVED				
Market capitalisation	n/a	n/a	n/a	n/a
Not applicable — No public market. A closely held company has no observable price; see the constructed valuation below.				
Enterprise value (incl. leases)	n/a	n/a	n/a	n/a
Not applicable — No public market.				
EV ÷ EBITDA	n/a	n/a	n/a	n/a
Not applicable — No public market.				
EV ÷ Adjusted EBITDA	n/a	n/a	n/a	n/a
Not applicable — No public market.				
EV ÷ revenue	n/a	n/a	n/a	n/a
Not applicable — No public market.				
Price ÷ earnings (diluted)	n/a	n/a	n/a	n/a
Not applicable — No public market.				
Price ÷ book value	n/a	n/a	n/a	n/a
Not applicable — No public market.				
Free cash flow yield	n/a	n/a	n/a	n/a
Not applicable — No public market.				
Dividend yield	n/a	n/a	n/a	n/a
Not applicable — No public market.				
VALUATION — CONSTRUCTED				
Indicative enterprise value — low	—	9,108	9,756	10,860
Indicative enterprise value — base	—	11,385	12,195	13,575
Indicative enterprise value — high	—	13,662	14,634	16,290
Indicative equity value — base	—	8,185	9,447	11,355
Implied multiple at the stated price	—	7.55×	6.87×	5.97×
PER SHARE				
Diluted EPS	n/a	n/a	n/a	n/a
Not applicable — No share count recorded. In a closely held company the share count is arbitrary in any case, so per-share measures carry no information.				
Book value per share	—	—	—	—
Dividends per share	—	—	—	—
FCF per share	n/a	n/a	n/a	n/a
Not applicable — No share count recorded.				

Ratios using average balances require an opening balance sheet and are therefore blank in the earliest period. Days measures assume a 365-day year.

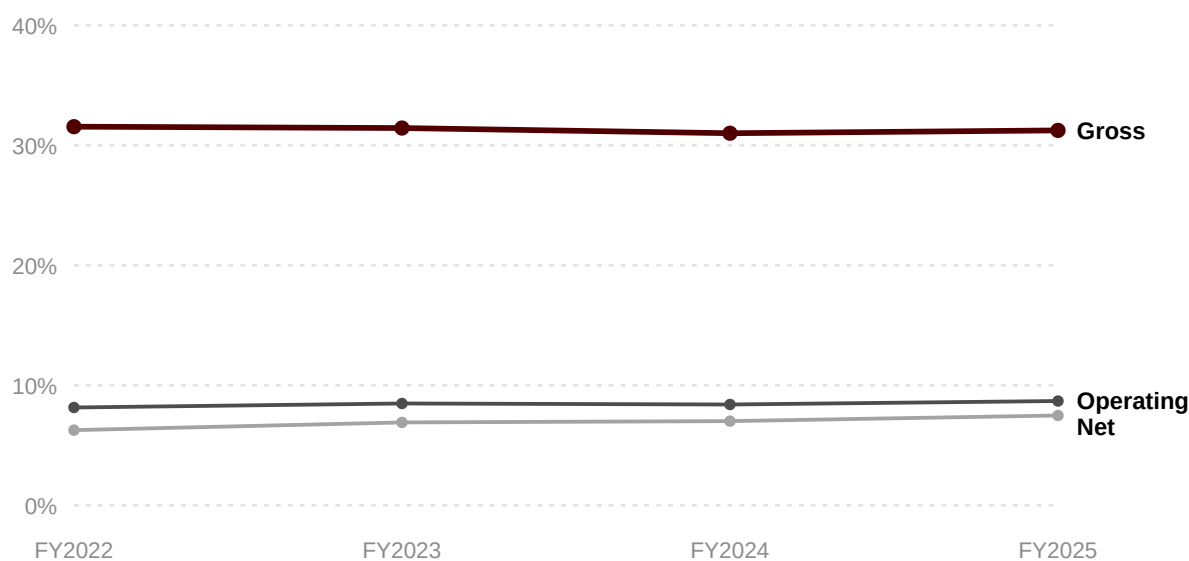
Charts

REVENUE AND GROSS PROFIT



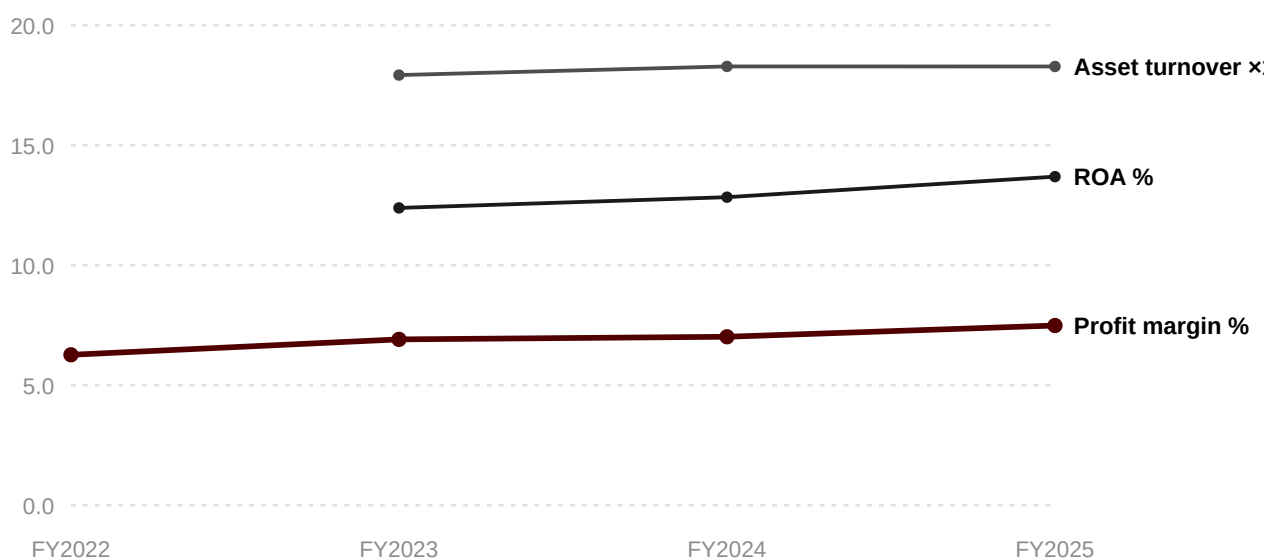
Figures in \$ thousands. Source: Reviewed financial statements FY2022–FY2025; management schedules for normalisations.

MARGIN TREND



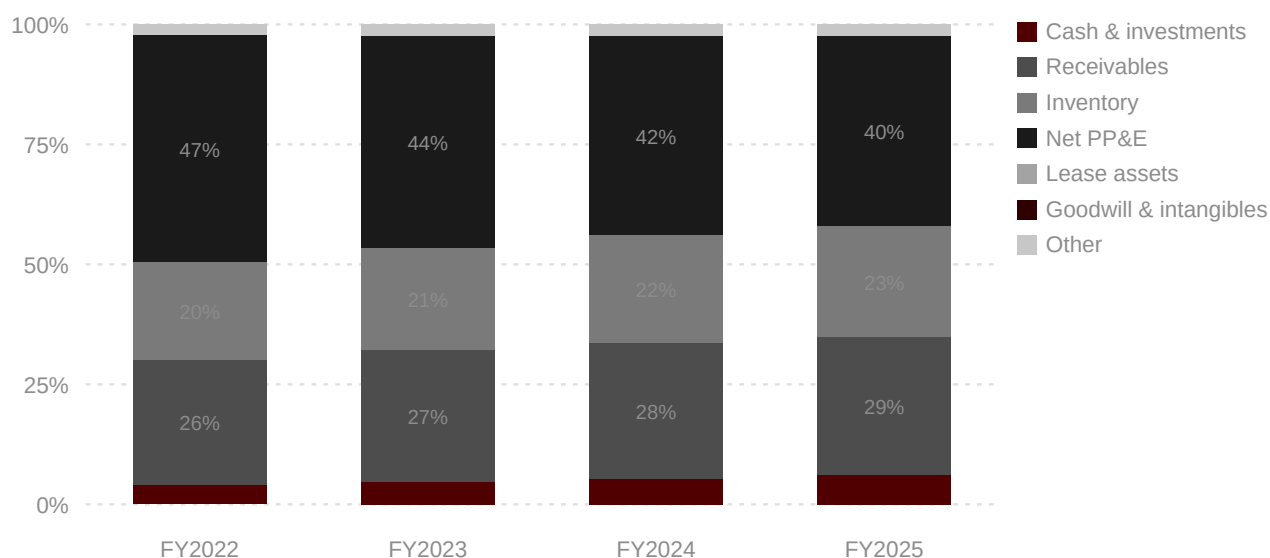
Percent of revenue. Source: Reviewed financial statements FY2022–FY2025; management schedules for normalisations.

ROA DECOMPOSITION — MARGIN VERSUS PRODUCTIVITY



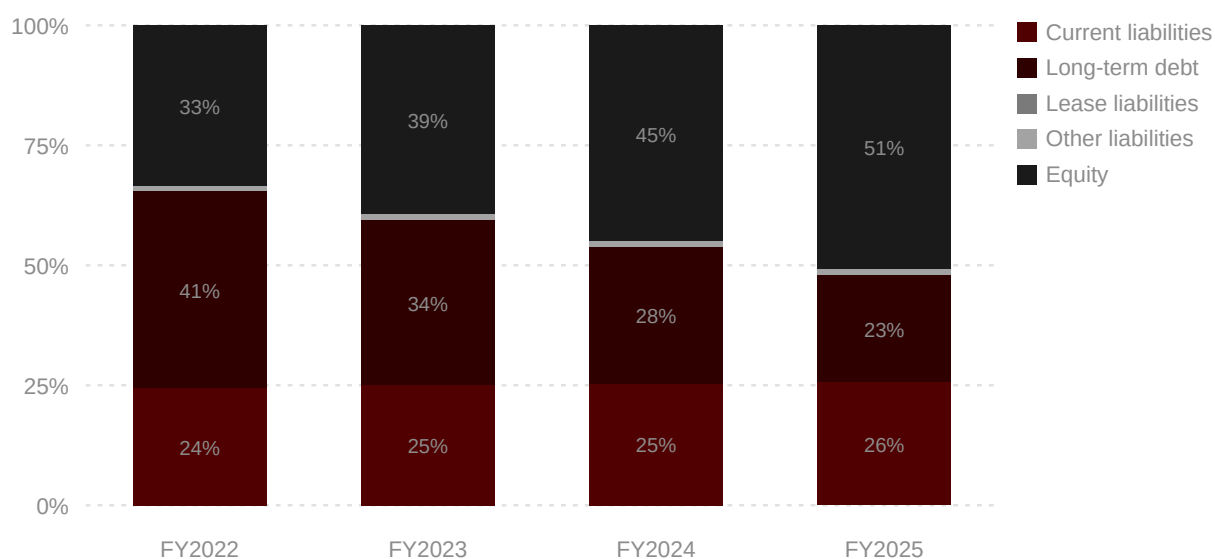
Profit margin (% left scale shown) against asset turnover (x, scaled $\times 10$ for display). Source: Reviewed financial statements FY2022–FY2025; management schedules for normalisations.

ASSET COMPOSITION



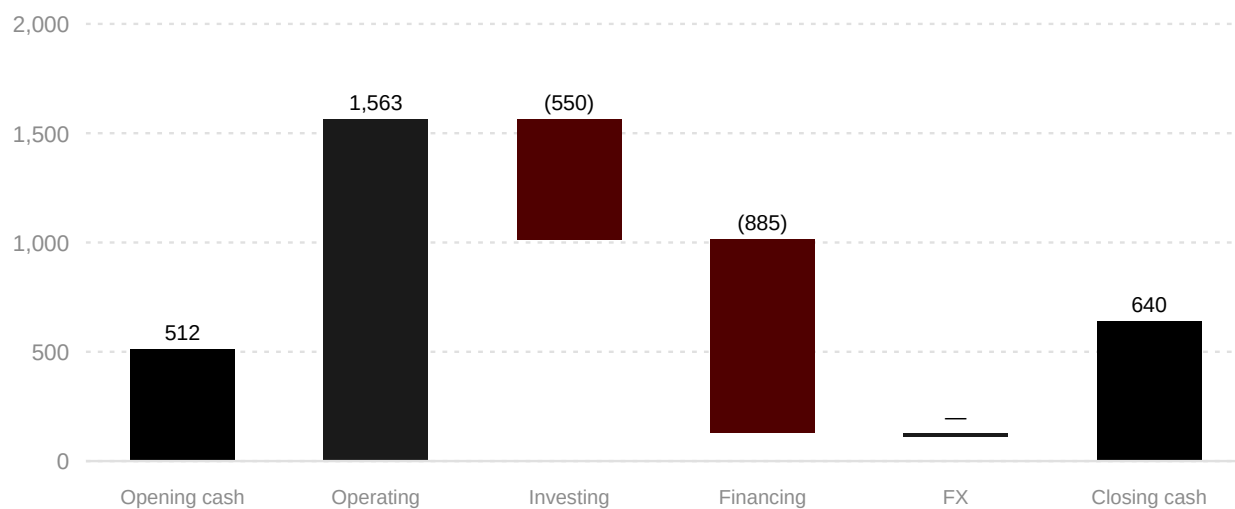
Percent of total assets. Source: Reviewed financial statements FY2022–FY2025; management schedules for normalisations.

CAPITAL STRUCTURE



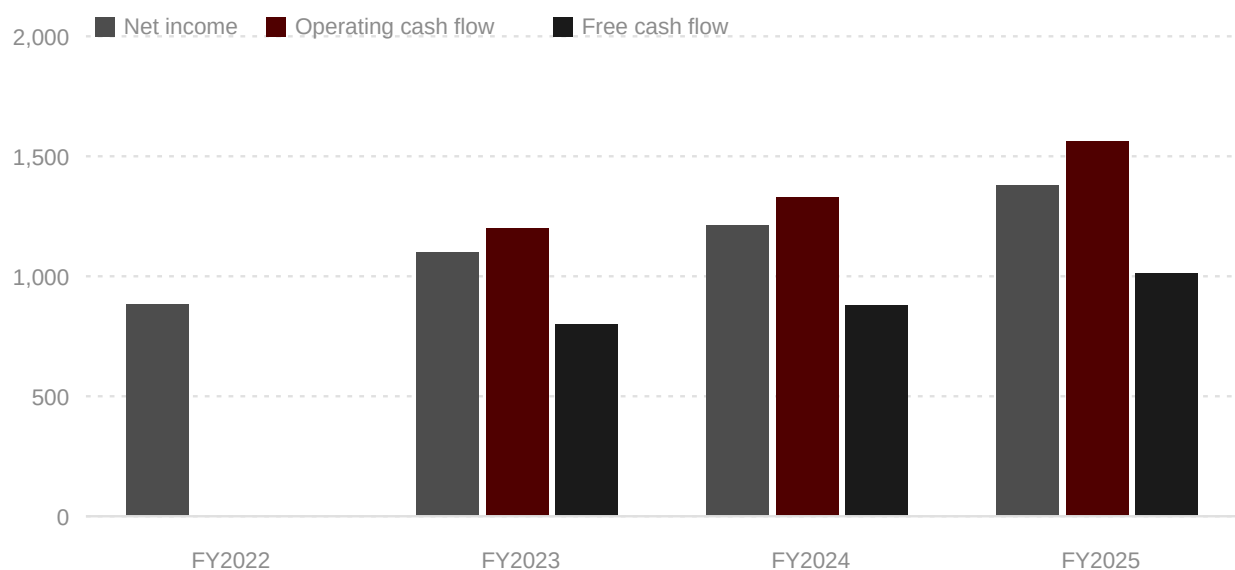
Percent of total liabilities and equity. Source: Reviewed financial statements FY2022–FY2025; management schedules for normalisations.

CASH FLOW BRIDGE — MOST RECENT PERIOD



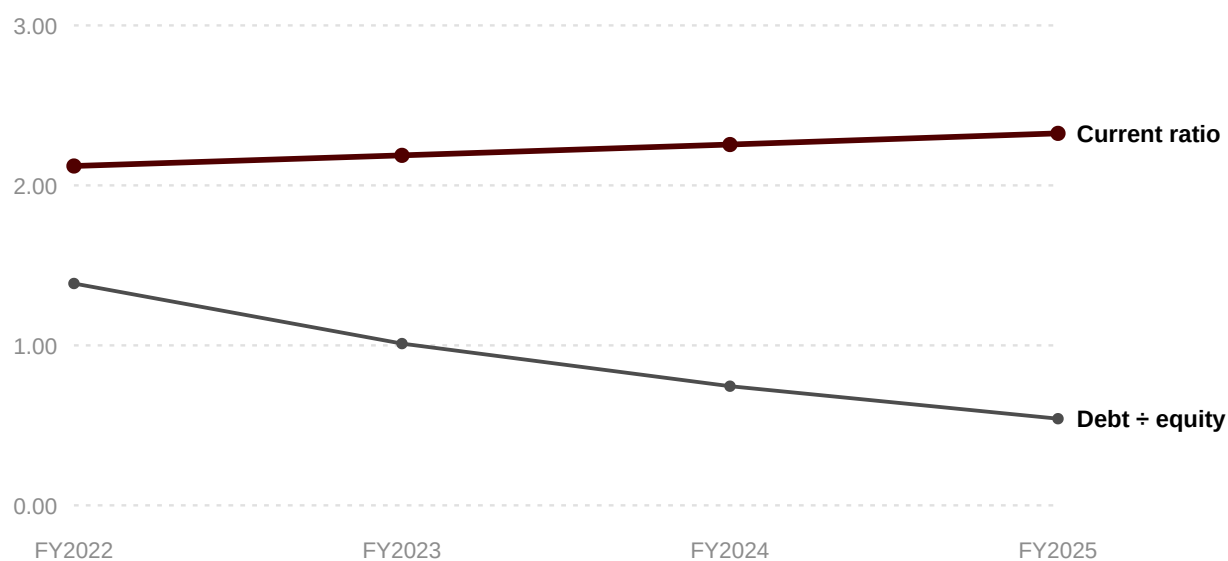
Figures in \$ thousands, FY2025. Source: Reviewed financial statements FY2022–FY2025; management schedules for normalisations.

OPERATING CASH FLOW VERSUS NET INCOME



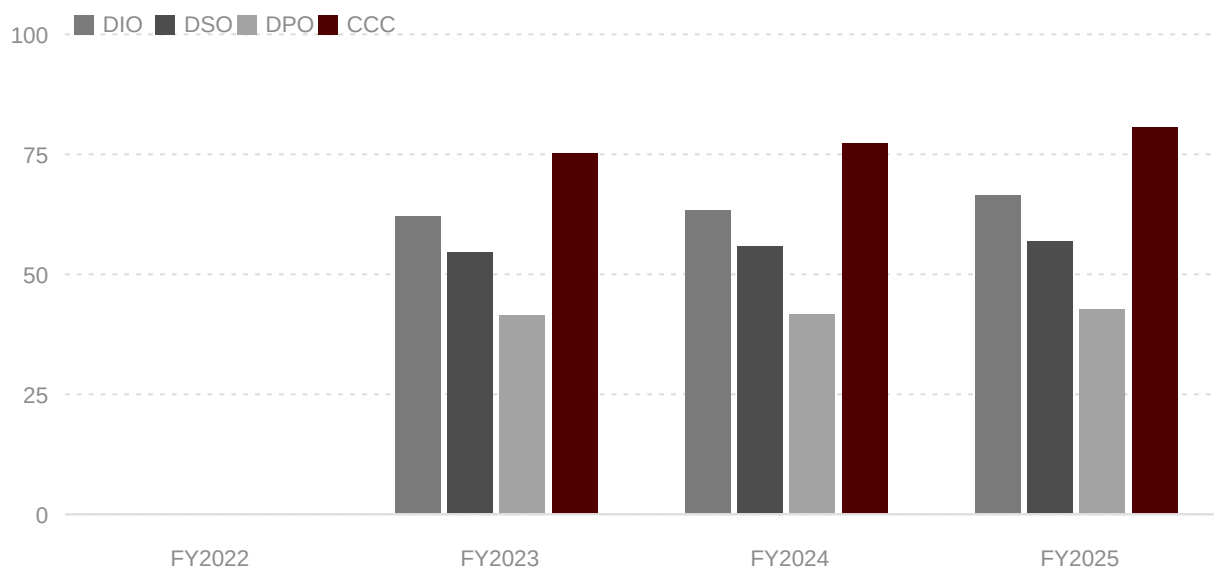
Figures in \$ thousands. A persistent gap is a quality-of-earnings signal. Source: Reviewed financial statements FY2022–FY2025; management schedules for normalisations.

LIQUIDITY AND LEVERAGE



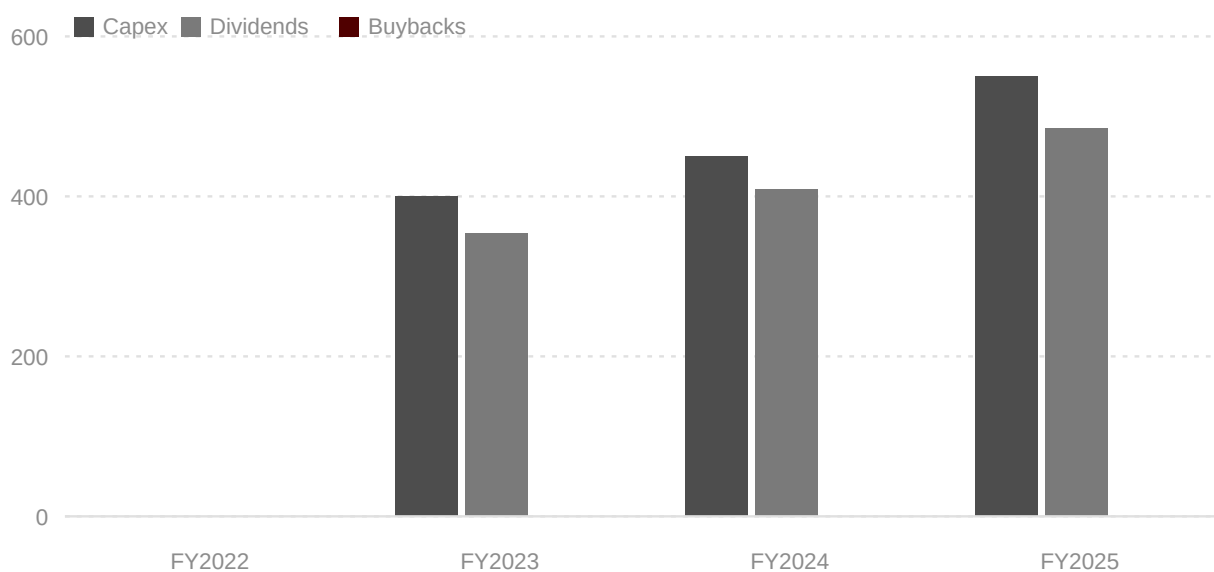
Current ratio (x) and debt-to-equity (x). Source: Reviewed financial statements FY2022–FY2025; management schedules for normalisations.

WORKING CAPITAL CYCLE



Days. Cash conversion cycle = DIO + DSO – DPO. Source: Reviewed financial statements FY2022–FY2025; management schedules for normalisations.

CAPITAL DEPLOYMENT



Figures in \$ thousands, shown as absolute amounts. Source: Reviewed financial statements FY2022–FY2025; management schedules for normalisations.

Findings

SCREENING FLAGS

Mechanical checks against the model. A flag indicates where to look; it is not itself a conclusion.

Earnings convert to cash

Operating cash flow is 1.13× net income.

Effective tax rate is unusual

The effective rate is 3.0%. Reconcile it to the statutory rate before treating current earnings as repeatable.

Pass-through taxation distorts every measure below pre-tax income

This entity pays no material entity-level income tax — the effective rate reads 3.0%. Net margin, ROA, ROE and EPS are all inflated relative to a taxpaying company. Compare on operating margin and EBITDA, or apply a notional tax charge before any comparison is drawn.

Normalisations are 31% of reported EBITDA

The adjusted earnings figure is substantially constructed. Diligence will attack this schedule before anything else in the analysis.

Return on assets has improved across the period

ROA moved from 12.4% to 13.7%.

Analyst commentary

BINDING CONSTRAINT — CANDIDATES

Candidate 1 — Customer concentration. The top three customers are 47% of revenue. This caps the multiple more effectively than any operational improvement could raise it. Disconfirming evidence would be long-dated contracts with switching costs rather than blanket orders.

Candidate 2 — Owner dependence. Commercial relationships, pricing authority and quoting all sit with the owner. Disconfirming evidence would be a second quoter with independent authority and a customer who names someone else as their contact.

Candidate 3 — Capacity. Capital expenditure has run above depreciation for three years and revenue per employee is rising, which suggests the plant is absorbing growth rather than constraining it. This is the weakest of the three candidates and is listed to be dismissed.

LIMITATIONS AND SCOPE

Reviewed statements only, with no audit testing. The normalisation schedule rests partly on management assertion — specifically the family payroll item — which has not been corroborated. There is no customer-level profitability, no quote-to-win data and no capacity utilisation measurement. The multiple range derives from 38 transactions, which is a thin comparable set at this size.

What this tells us

The preceding pages establish what the numbers are. This page states what they amount to. Each reading below is derived mechanically from the model; the judgement that follows is the analyst's.

WHAT THE EVIDENCE SAYS

Revenue grew 30.5% across the period

Test whether growth came with margin or was bought with it — the common-size and horizontal tables answer this directly.

The change in return on assets is driven by margin

Profit margin moved 6.7% and asset turnover -0.0%. A margin-driven move is addressed through price, mix and cost — not through the balance sheet.

Earnings are converting to cash

Operating cash flow is 1.13× net income. The reported profit is supported by cash, which is the first test any set of accounts has to pass.

Revenue can fall 27.8% before operating income turns negative

Break-even revenue of 13,280 against actual revenue of 18,400. That is reasonable cover against a demand shock.

Working capital absorbs 19.2% of revenue

At the current ratio, every additional 100 of revenue needs roughly 19.2 of funding behind it. Growth has a cash cost in this business, and the plan has to carry it.

Free cash flow of 1,013 after capital expenditure

This is the money genuinely available for debt reduction, distribution or reinvestment — and therefore the real budget for anything proposed below.

BREAK-EVEN AND OPERATING LEVERAGE

CONTRIBUTION RATE

31.3%

gross margin as proxy

BREAK-EVEN REVENUE

13,280

\$ thousands

MARGIN OF SAFETY

27.8%

revenue above break-even

OPERATING LEVERAGE

3.59×

× on revenue change

Assumes cost of sales is wholly variable and operating expense wholly fixed. The movement in these figures across periods is more reliable than the level in any one of them.

What each lever is worth

Each line answers a single question: if this one thing moved, what would it be worth? Sized on FY2025, holding everything else constant. The purpose is ranking, not precision — so that effort is directed where the arithmetic says it pays rather than where it is most comfortable to look.

LEVER	MOVEMENT	OPERATING INCOME	AFTER TAX	ONE-OFF CASH
MARGIN				
Gross margin One point of gross margin drops straight through. In a business of this size it is usually the single largest lever available, and the hardest to hold.	+100 bps	184	179	—
Revenue growth Incremental revenue at the current contribution rate, assuming the fixed cost base absorbs it. If it does not, the lever is worth less than this.	+1%	58	56	—
COST				
Selling, general and administrative A one percent reduction in overhead. Deliverable without touching the customer proposition, which is what distinguishes it from the margin levers above.	−1%	42	40	—
Total operating expense Applied across the whole fixed base rather than SG&A alone.	−1%	42	40	—
WORKING CAPITAL				
Days inventory (DIO) One-off cash release, not a profit improvement. Recurring benefit is the financing cost avoided on the released amount.	−1 day	—	—	35
Days payable (DPO) Supplier-funded. Cheap until it is not — extending terms transfers cost to the supplier and eventually returns as price.	+1 day	—	—	35
Days sales outstanding (DSO) One-off cash release from faster collection.	−1 day	—	—	50
Restore prior-year inventory turns Cash currently held in the gap between this year's turns and last year's. This is a recovery of ground already lost, not a new gain.	to 5.76×	—	—	225
CAPITAL				
Debt reduction Interest saved at the implied average rate of 6.5%. Modest in isolation; it also buys covenant headroom, which does not show up in this column.	−10% of debt	19	18	—
Effective tax rate Falls to net income rather than operating income. Structural, slow, and rarely the binding constraint — but it is free money where it is available.	−100 bps	—	14	—

Figures in \$ thousands. After-tax column applies the effective rate of 3.0%. Levers are shown in isolation and are not additive without checking for overlap.

Price against volume

Change in gross profit for a given price move and the volume response it provokes, against a base of 5,750 \$ thousands. The zero crossing in each row is the volume loss a price rise can absorb before it destroys value. A pricing case argued on margin alone has not answered the question this grid asks.

CHANGE IN GROSS PROFIT	VOLUME FLAT	VOLUME -2.5%	VOLUME -5.0%	VOLUME -7.5%	VOLUME -10.0%	VOLUME -15.0%
Price -4.0%	(736)	(861)	(987)	(1,112)	(1,237)	(1,488)
Price -2.0%	(368)	(503)	(637)	(772)	(906)	(1,175)
Price unchanged	0	(144)	(288)	(431)	(575)	(863)
Price +2.0%	+368	+215	+62	(91)	(244)	(550)
Price +4.0%	+736	+574	+412	+250	+87	(237)
Price +6.0%	+1,104	+933	+761	+590	+419	+76
Price +8.0%	+1,472	+1,291	+1,111	+930	+750	+389

Assumes cost of sales is fully variable with volume and unaffected by price. Elasticity is not uniform across a range — read this as a boundary condition for a targeted test, not as a forecast.

Strengthening the position

Sequenced rather than listed. **Now** is the next ninety days and needs no permission. **Next** is this year and needs a decision. **Later** is contingent on what the first two reveal. The value of this page lies in what has been left off it.

NOW — NEXT 90 DAYS

ACTION	WHY	EXPECTED IMPACT	OWNER	EFFORT
Corroborate or withdraw the family payroll add-back	85 of add-backs rests on management assertion alone. At the base multiple that is 425 of value that a buyer will simply remove.	Protects ≈ 425 of enterprise value	Fenwick / CFO	Low
Move commercial relationships off the owner	Quoting, pricing authority and customer contact all sit with one person. This is the single largest discount a buyer will apply, and it is applied to the multiple rather than the earnings.	Moves the business toward the upper half of the 4.0x–6.0x range	Owner	Medium

NEXT — THIS YEAR

ACTION	WHY	EXPECTED IMPACT	OWNER	EFFORT
Reduce top-three customer concentration below 35%	47% concentration caps the multiple regardless of margin. No operational improvement compensates for it.	The binding constraint on value, not on earnings	Sales	High
Move from reviewed to audited statements ahead of any process	A review provides limited assurance only. Buyers discount unaudited earnings, and the discount usually exceeds the audit fee by an order of magnitude.	Removes an evidence discount from the price	CFO	Medium

LATER — CONTINGENT

ACTION	WHY	EXPECTED IMPACT	OWNER	EFFORT
Establish customer and job-level profitability	Consolidated statements show margin is holding but cannot show which work earns it. In contract fabrication the spread between best and worst jobs is usually very wide.	Converts a stable margin into a targeted one	Operations	Medium

How to read this analysis

Every figure in this report is produced by a stated formula from a sourced input. This appendix sets out the principles behind the method, the conventions the model follows, and the derivation of every number in the preceding pages. It is included so that the analysis can be checked, repeated and — most importantly — understood.

PRINCIPLES

01 A number without a source is not evidence

Every figure in an Aperture deliverable traces to a document, a page and a date, or is marked as modelled or estimated. The evidence ledger is not administrative overhead — it is the difference between an analysis a client can act on and an assertion they have to take on trust.

02 Test the account management gives of its own problem

Management's diagnosis is evidence about management, not necessarily about the business. It is triangulated against the statements, not adopted from them. Where the two disagree, that disagreement is itself a finding.

03 Separate structure from movement

Common-size analysis shows what the business is. Horizontal analysis shows what it is doing. Read either alone and you will reach a confident wrong answer; read them together and the cause usually presents itself.

04 Decompose before you act

A return is a product of margin and productivity, and a change in it says nothing about which. The DuPont identity exists because the two have opposite remedies. This is the single discipline that most reliably separates useful analysis from expensive activity.

05 Cash is the test earnings have to pass

Profit is an opinion formed under accounting rules; cash is a fact. Where the two diverge persistently, the Method trusts the cash and investigates the profit — in that order.

06 A flag is an instruction to look, not a conclusion

Every automated check in this model says only "look here". Ratios raise questions; they do not answer them. The answer is always in the business, and it is usually obtained by asking someone who works there.

07 Rank by arithmetic, decide by judgement

Sizing every improvement lever on one scale removes preference from the ordering. It does not remove judgement from the decision — the arithmetic says where the money is, not whether this organisation can reach it.

08 Establish what kind of entity you are looking at first

Ownership status governs how much weight the evidence carries and how value can be estimated. Legal form governs whether the tax line — and every margin beneath it — is comparable to anything else. Both are settled before a single ratio is computed, because the alternative is a confident comparison between two things that were never alike.

09 State what would change the conclusion

Every Aperture finding carries the evidence that would overturn it. An analysis that cannot be disproved has not been tested, and a recommendation whose disconfirming evidence is unstated is a preference wearing a suit.

Conventions

Most disagreements about a number turn out to be disagreements about a convention. These are the rules this model follows.

Sign convention — income statement	Revenue and income are entered positive; every expense is entered positive and subtracted by the model. A credit balance in an expense line — a restructuring release, for instance — is entered negative.
Sign convention — balance sheet	Every figure is entered positive, exactly as printed. The two contra items, accumulated depreciation and treasury stock, are entered positive and subtracted.
Sign convention — cash flow	Each figure carries the sign the statement shows. Outflows are negative, so capital expenditure is a negative number.
Average balances	Ratios that divide a flow by a stock use the mean of opening and closing balances, and are marked avg . The earliest period therefore produces no such ratios.
Day count	All days measures assume a 365-day year. Where the entity reports on a 52/53-week calendar, the 53-week year overstates flows by roughly 2% against the prior year — material enough to note when it occurs.
Derived subtotals	Subtotals compute from their components. Where a reported subtotal is entered directly it overrides the computation and is marked as overridden, so a presentation difference never silently becomes an arithmetic error.
Units	Every figure in a single model shares one unit. Imported figures are rescaled at the mapping stage, never after.
Entity type	Ownership status, legal form and basis of preparation are recorded on the entity profile. They set the default evidence confidence, determine which ratios are shown as applicable, and select the valuation approach.
Normalisation	Add-backs adjust EBITDA for costs that would not exist under different ownership. Each carries an evidence grade. Reported figures always remain on the face of the statements; normalised figures are shown only as a labelled reconciliation.
Pass-through entities	Where the entity pays no entity-level income tax, net margin, ROA, ROE and EPS are structurally overstated against a taxpaying peer. The model flags this and the report repeats the caveat wherever those measures appear.
Non-recurring items	Impairments, restructuring and disposals are kept on the face of the statements rather than removed. They are real, they recur more often than the word "non-recurring" suggests, and hiding them makes the trend look better than the business is.

Derivation of every figure

STRUCTURE AND MOVEMENT

Vertical analysis (common-size)

FORMULA	$\frac{\text{Line item}}{\text{Total assets}} - \text{balance sheet}$ $\frac{\text{Line item}}{\text{Revenue}} - \text{income statement}$
WORKED	Gross profit as a share of revenue: $5,750 \div 18,400 = 31.3\%$
WHAT IT SAYS	Divides every line by a common base so that size drops out of the comparison and structure remains. It is what makes a \$40bn business and a \$4m business comparable on the same page, and what makes this year comparable to a year in which the business was a different size.
WHERE IT MISLEADS	The base has to be genuinely common. Comparing a common-size balance sheet across businesses with very different lease-accounting treatments compares presentation, not substance.

Horizontal analysis (period-on-period change)

FORMULA	$\frac{\text{Current period} - \text{Prior period}}{ \text{Prior period} }$
WORKED	Revenue: $(18,400 - 17,250) \div 17,250 = 6.7\%$
WHAT IT SAYS	Isolates movement. Read beside the common-size tables it answers a different question: vertical analysis says what the business looks like, horizontal says what it is doing.
WHERE IT MISLEADS	Percentage change from a small or negative base is arithmetically valid and analytically worthless. The absolute value belongs beside it. This is why the Method never reports a percentage change alone.

Compound annual growth rate (CAGR)

FORMULA	$\left(\frac{\text{Final}}{\text{First}} \right)^{\frac{1}{\text{number of intervals}}} - 1$
WORKED	Revenue: $(18,400 \div 14,100)^{\frac{1}{3}} - 1 = 9.3\%$
WHAT IT SAYS	Smooths a series into the single growth rate that would have produced the same end point. It is the honest way to describe a multi-year trend in one figure.
WHERE IT MISLEADS	CAGR is entirely determined by its first and last points and ignores everything between. A series that collapsed and recovered shows the same CAGR as one that grew steadily. Always show the series as well.

RETURN

The DuPont identity

FORMULA	$\text{ROA} = \text{Profit margin} \times \text{Asset turnover}$ $\text{ROE} = \text{Profit margin} \times \text{Asset turnover} \times \text{Financial leverage}$
WORKED	$7.49\% \times 1.83\times = 13.69\% \text{ ROA}; \times 2.08\times \text{ leverage} = 28.54\% \text{ ROE}$
WHAT IT SAYS	A return is not a fact, it is a product. Decomposition separates how much the business earns per dollar of sales from how many dollars of sales it generates per dollar of assets. Two businesses can post identical returns by entirely different routes, and the route determines what should be done about it.
WHERE IT MISLEADS	A margin problem and a productivity problem are indistinguishable in the ROA line and require opposite responses — one is addressed through price, mix and cost, the other through the asset base and working capital. Acting before decomposing is the most common and most expensive error in financial analysis.

Why average balances

FORMULA	$\text{Average balance} = \frac{\text{Opening} + \text{Closing}}{2}$
WORKED	Average total assets: $(9,727 + 10,400) \div 2 = 10,064$
WHAT IT SAYS	Income statement figures cover a whole period; balance sheet figures are a single instant. Dividing a flow by a point-in-time stock mismatches them. Averaging the opening and closing balance approximates the stock the business actually operated with across the period.
WHERE IT MISLEADS	This is why the earliest period in this model produces no average-based ratios — there is no opening balance to average with. It is also why four balance-sheet columns give only three years of complete ratio analysis.

RESILIENCE

Break-even revenue

FORMULA	Total operating expenses ÷ Contribution rate (contribution rate approximated by gross margin)
WORKED	$4,150 \div 31.3\% = 13,280$
WHAT IT SAYS	The revenue at which operating income is exactly zero. It converts an abstract cost base into a concrete sales target, which is usually the form in which an operator can act on it.
WHERE IT MISLEADS	It assumes cost of sales is wholly variable and operating expense wholly fixed. Neither is exactly true — most cost bases are semi-variable. The movement in break-even across periods is far more reliable than its level in any one of them.

Margin of safety

FORMULA	$(\text{Revenue} - \text{Break-even revenue}) \div \text{Revenue}$
WORKED	$(18,400 - 13,280) \div 18,400 = 27.8\%$
WHAT IT SAYS	How far revenue can fall before the business stops making an operating profit. The most direct answer available to "how much shock can this absorb".
WHERE IT MISLEADS	It measures resilience to a revenue fall only. It says nothing about a cost shock, and nothing about liquidity — a business can pass this test and still run out of cash.

Degree of operating leverage

FORMULA	Gross profit ÷ Operating income
WORKED	$5,750 \div 1,600 = 3.59\times$
WHAT IT SAYS	How much operating income moves for a given move in revenue. A business at 6× leverage turns a 5% revenue fall into a 30% fall in operating income.
WHERE IT MISLEADS	High operating leverage is not a flaw — it is the same mechanism that makes recovery violent on the way up. It is a statement about volatility, not about quality.

DIRECTION

Sizing a lever

FORMULA	Movement × Base = Impact on operating income Impact × (1 - Effective tax rate) = Impact after tax
WORKED	Gross margin +100 bps: $1\% \times 18,400 = 184$ operating income; $\times (1 - 3.0\%) = 179$ after tax
WHAT IT SAYS	Every improvement lever is expressed as one standard movement against the actual base, so that entirely different kinds of action — a price rise, an overhead cut, a day of inventory — can be ranked on one scale. The purpose is ordering, not forecasting.
WHERE IT MISLEADS	Levers are sized in isolation and are not additive. Cutting overhead and raising price are not independent if the overhead being cut is the service the price depends on. The arithmetic ranks the options; judgement decides which can actually be pulled.

Working-capital cash release

FORMULA	One day of inventory = Cost of sales ÷ 365 One day of receivables = Revenue ÷ 365
WORKED	One day of inventory: $12,650 \div 365 = 35$
WHAT IT SAYS	Converts days into money. It is what makes an operational target — "take two days out of stock" — legible to a board as a cash figure.
WHERE IT MISLEADS	A one-off release, not a recurring profit improvement. The recurring benefit is only the financing cost avoided on the amount released, which is an order of magnitude smaller.

Price and volume sensitivity

FORMULA	$\text{New gross profit} = \text{Revenue} \times (1 + \text{price change}) \times (1 + \text{volume change}) - \text{Cost of sales} \times (1 + \text{volume change})$
WORKED	+2% price, -2.5% volume: $5,965 - 5,750 = 215$
WHAT IT SAYS	Price flows entirely to gross profit; volume takes cost with it. That asymmetry is why a price rise can survive a surprising amount of volume loss, and the grid establishes exactly how much before the trade stops paying.
WHERE IT MISLEADS	It assumes cost of sales is fully variable and unaffected by price, and that elasticity is uniform. It is a boundary condition for a targeted test, not a forecast of what the market will do.

ENTITY TYPE

Why private and public figures are not directly comparable

FORMULA	No formula – three structural differences
WORKED	This entity: Private – family owned · S corporation (pass-through tax) · Reviewed – no opinion
WHAT IT SAYS	Three differences matter and they compound. Assurance : a listed company files audited statements under legal jeopardy; a private company may file nothing and keep its books on a tax basis. Tax : a pass-through entity pays no entity-level income tax, so its net margin sits structurally above an identical C corporation's. Compensation : in an owner-managed business the owner sets their own pay, so reported earnings reflect a personal tax decision rather than the cost of running the business. The remedy for all three is the same — compare on operating margin and normalised EBITDA, and treat net income as the least comparable line in the statements.
WHERE IT MISLEADS	The error is rarely made deliberately. It happens because net margin is the most quoted figure and the most convenient one to compare, and because nothing in either set of statements warns you that the comparison is invalid.

Normalising owner-managed earnings

FORMULA	$\text{Adjusted EBITDA} = \text{EBITDA} + \text{costs that would not exist under different ownership}$ $\text{SDE} = \text{Adjusted EBITDA} + \text{the owner's base compensation}$
WORKED	$2,080 + 635 = 2,715$ adjusted EBITDA; SDE 2,955
WHAT IT SAYS	Each add-back is a claim that a cost would disappear under different ownership. Owner pay above market, rent to a related-party property company, personal vehicles and travel, family on the payroll who do not work there. None survives a sale, so none belongs in the earnings a buyer is pricing.
WHERE IT MISLEADS	The evidence grade matters more than the amount. An add-back marked documented survives diligence; one marked asserted usually does not — and at a 5× multiple every dollar that fails removes five dollars of value. Normalise for what you can prove, not for what you can argue.

Constructing a value without a market

FORMULA	$\text{Enterprise value} = \text{Chosen earnings basis} \times \text{Multiple (low / base / high)}$ $\text{Equity value} = \text{Enterprise value} - \text{Net debt}$
WORKED	$2,715 \times 5.00\times = 13,575$ enterprise value; less net debt 2,220 = 11,355 equity
WHAT IT SAYS	With no observable price, value is constructed: normalised earnings multiplied by what comparable businesses actually sold for, then adjusted for the debt the buyer inherits. The multiple must carry a source — the transaction set, the period, the sample size — because it is doing all the work.
WHERE IT MISLEADS	A multiple imports the comparables' growth, customer concentration and management depth, none of which belong to this business. And the range is the answer: quote the base case alone and a genuine uncertainty becomes a false precision that will be quoted back at you.

INTEGRITY

The balance sheet tie-out

FORMULA	$\text{Total assets} = \text{Total liabilities} + \text{Total equity}$
WORKED	10,400 vs 10,400 – difference 0
WHAT IT SAYS	Run automatically on every period. Nothing downstream is trustworthy until this holds, which is why the Method checks it before it computes anything else.
WHERE IT MISLEADS	A tie-out that holds proves arithmetic, not accuracy. Two compensating errors balance perfectly.

The cash tie-out

FORMULA	Net change in cash = Closing cash - Opening cash (balance sheet)
WHAT IT SAYS	Links the cash flow statement to the balance sheet. A gap normally means the cash-flow definition includes restricted cash or overdrafts, which is worth knowing before quoting either figure.
WHERE IT MISLEADS	Small differences are usually definitional and harmless. Large ones mean a line has been mis-signed — in the Method, cash-flow outflows are entered negative.

PROFITABILITY**Gross margin****31.3%**

FORMULA	Gross profit ÷ Revenue / net sales
WORKED	5,750 ÷ 18,400
WHAT IT SAYS	What proportion of every sales dollar survives the direct cost of delivering it. This is the ceiling on every other margin below it — nothing downstream can improve what this line has already given away.
WHERE IT MISLEADS	Gross margin can be held steady by a shift in sales mix while the margin on the core product erodes underneath. A stable line is reassuring only once you have seen the mix behind it.

Operating margin**8.7%**

FORMULA	Operating income ÷ Revenue / net sales
WORKED	1,600 ÷ 18,400
WHAT IT SAYS	The margin the trading business earns before financing and tax. It is the cleanest single measure of operating performance because it is unaffected by how the business is funded.
WHERE IT MISLEADS	One-off charges — restructuring, impairment, legal settlements — sit inside this line and can move it several points in a year that was otherwise unremarkable. Always read it beside the same line adjusted for those items.

EBITDA margin**11.3%**

FORMULA	(Operating income + Depreciation and amortisation) ÷ Revenue / net sales
WORKED	(1,600 + 480) ÷ 18,400
WHAT IT SAYS	Operating margin before the depreciation charge. Useful for comparing businesses with different asset ages or acquisition histories, because depreciation reflects when assets were bought as much as how they are performing now.
WHERE IT MISLEADS	EBITDA is not cash. It ignores the capital expenditure that keeps the asset base alive, and in an asset-heavy business that omission is the whole question. Read it against capex, never instead of it.

Pre-tax margin**7.7%**

FORMULA	Income before income taxes ÷ Revenue / net sales
WORKED	1,420 ÷ 18,400
WHAT IT SAYS	Operating margin after the cost of financing. The gap between this and operating margin is what the capital structure costs.
WHERE IT MISLEADS	Interest income can flatter this line in a cash-rich business. Separate the two before treating the difference as a financing cost.

Net profit margin**7.5%**

FORMULA	Net income ÷ Revenue / net sales
WORKED	1,378 ÷ 18,400
WHAT IT SAYS	What the owners keep from every sales dollar, after everything. It is also the profitability half of return on assets.
WHERE IT MISLEADS	The most quoted margin and the least comparable, because it carries tax position, financing and one-offs all at once. Movement here should always be traced back up the statement to its cause.

Effective tax rate 3.0%

FORMULA $\text{Income tax expense} \div \text{Income before income taxes}$

WORKED $42 \div 1,420$

WHAT IT SAYS The rate actually paid on reported profit, as distinct from the statutory rate. It tells you how repeatable current earnings are.

WHERE IT MISLEADS A rate well below statutory usually means timing differences, credits or foreign mix — none of which are guaranteed to persist. A rate above it often signals non-deductible items such as an impairment.

RETURNS

Return on assets (avg) 13.7%

FORMULA $\text{Net income} \div \text{Average total assets}$

WORKED $1,378 \div 10,064$

WHAT IT SAYS The return the business earns on everything it controls, regardless of who funded it. This is the headline efficiency measure of the Method, and the one that decomposes most usefully.

WHERE IT MISLEADS Averaging matters. Using the closing balance instead of the average overstates return in a shrinking business and understates it in a growing one — precisely when you most need the number to be honest.

Return on equity (avg) 28.5%

FORMULA $\text{Net income} \div \text{Average total shareholders' equity}$

WORKED $1,378 \div 4,829$

WHAT IT SAYS The return earned on the owners' capital specifically. It is return on assets multiplied by leverage.

WHERE IT MISLEADS Rising ROE is not automatically good news. Borrowing to buy back shares raises it arithmetically while making the business more fragile. Always read ROE beside ROA — if ROE is climbing and ROA is not, the improvement was bought with debt.

Return on invested capital 20.7%

FORMULA $(\text{Operating income} \times (1 - \text{effective tax rate})) \div (\text{Total debt} + \text{Total shareholders' equity} - \text{Cash and cash equivalents})$

WORKED $(1,600 \times (1 - \text{effective tax rate})) \div (2,860 + 5,280 - 640)$

WHAT IT SAYS Return on the capital genuinely deployed in the business, with surplus cash taken out. The most demanding of the return measures, and the one that best answers whether the business creates value.

WHERE IT MISLEADS Compare it to the cost of capital, not to zero. A business earning 7% on capital that costs 9% is destroying value while reporting a profit.

LIQUIDITY

Current ratio 2.33x

FORMULA $\text{Total current assets} \div \text{Total current liabilities}$

WORKED $6,185 \div 2,660$

WHAT IT SAYS Whether short-term assets cover short-term obligations. A blunt instrument, but the first thing anyone checks.

WHERE IT MISLEADS A high current ratio can mean strong liquidity or a warehouse full of unsellable stock. Read it with inventory turns, or it will mislead you in the direction of comfort.

Quick ratio 1.42x

FORMULA $(\text{Total current assets} - \text{Inventories} - \text{Prepaid expenses}) \div \text{Total current liabilities}$

WORKED $(6,185 - 2,420 - -) \div 2,660$

WHAT IT SAYS Liquidity without relying on selling inventory. The relevant test when stock is slow-moving or seasonal.

WHERE IT MISLEADS In fast-turning retail the quick ratio understates the position badly, because inventory genuinely does convert to cash within weeks. The measure has to fit the operating cycle.

Cash ratio**0.24x**

FORMULA

 $(\text{Cash and cash equivalents} + \text{Short-term investments}) \div \text{Total current liabilities}$

WORKED

 $(640 + -) \div 2,660$

WHAT IT SAYS

The most conservative liquidity test — what could be settled today.

WHERE IT
MISLEADS

Very few healthy businesses score well here, and they should not. Idle cash has a cost.

Working capital**3,525**

FORMULA

 $\text{Total current assets} - \text{Total current liabilities}$

WORKED

 $6,185 - 2,660$

WHAT IT SAYS

The capital tied up in day-to-day operations. Positive means the business funds its own cycle; negative means someone else does.

WHERE IT
MISLEADS

Negative working capital is a genuine advantage in fast-turning retail and a warning almost anywhere else. The same number means opposite things in different business models.

Working capital ÷ revenue**19.2%**

FORMULA

 $(\text{Total current assets} - \text{Total current liabilities}) \div \text{Revenue} / \text{net sales}$

WORKED

 $(6,185 - 2,660) \div 18,400$

WHAT IT SAYS

How much working capital each dollar of revenue requires. This is what tells you the cash cost of growth.

WHERE IT
MISLEADS

A business with 15% working capital intensity needs 15 cents of funding for every extra dollar of sales. Growth plans that ignore this run out of cash while reporting profits.

EFFICIENCY**Asset turnover (avg)****1.83x**

FORMULA

 $\text{Revenue} / \text{net sales} \div \text{Average total assets}$

WORKED

 $18,400 \div 10,064$

WHAT IT SAYS

How much revenue each dollar of assets generates. The productivity half of return on assets, and the half management usually has least visibility on.

WHERE IT
MISLEADS

It falls when assets are acquired mid-year and rises when they are written down. An impairment mechanically improves asset turnover, which is not an operational achievement.

Fixed-asset turnover (avg)**4.50x**

FORMULA

 $\text{Revenue} / \text{net sales} \div \text{Average net property and equipment}$

WORKED

 $18,400 \div 4,085$

WHAT IT SAYS

Revenue generated per dollar of property and equipment. In an estate business this is the closest published proxy for sales per square foot.

WHERE IT
MISLEADS

Net book value falls with age, so an old estate flatters this ratio. Rising fixed-asset turnover with falling capex is depreciation, not productivity.

Inventory turnover (avg)**5.50x**

FORMULA

 $\text{Cost of sales} \div \text{Average inventories}$

WORKED

 $12,650 \div 2,300$

WHAT IT SAYS

How many times the stock position is sold and replaced in a year. The single most informative operating ratio in any product business.

WHERE IT
MISLEADS

Cost of sales belongs on top, not revenue — inventory is carried at cost, and mixing the two inflates the ratio by the whole gross margin.

Days inventory (DIO)**66d**

FORMULA	$365 \div (\text{Cost of sales} \div \text{Average inventories})$
WORKED	$365 \div (12,650 \div 2,300)$
WHAT IT SAYS	The same fact as inventory turnover, expressed in days, which is the language operations actually work in.
WHERE IT MISLEADS	A year-end snapshot taken just after a seasonal peak or trough distorts it. Where the business is highly seasonal, the average of quarterly balances is the honest denominator.

Days sales outstanding (DSO)**57d**

FORMULA	$365 \div (\text{Revenue} / \text{net sales} \div \text{Average receivables, net})$
WORKED	$365 \div (18,400 \div 2,870)$
WHAT IT SAYS	How long it takes to collect. Rising DSO is one of the earliest reliable warnings of either credit-quality deterioration or channel stuffing.
WHERE IT MISLEADS	Where a business sells partly for cash and partly on credit, total revenue overstates the base and DSO looks better than it is. Use credit sales where they are disclosed.

Days payable outstanding (DPO)**43d**

FORMULA	$365 \div (\text{Cost of sales} \div \text{Average accounts payable})$
WORKED	$365 \div (12,650 \div 1,480)$
WHAT IT SAYS	How long the business takes to pay. Longer is cheaper financing — up to the point at which suppliers price it back in.
WHERE IT MISLEADS	A jump in DPO can be a negotiated win or a liquidity problem. The two look identical in the ratio and are distinguished only by asking.

Cash conversion cycle**81d**

FORMULA	$\text{DIO} + \text{DSO} - \text{DPO}$
WORKED	$\text{DIO} + \text{DSO} - \text{DPO}$
WHAT IT SAYS	The number of days between paying for stock and being paid for it. Multiply it by daily cost of sales and you have the cash permanently tied up in the operating cycle.
WHERE IT MISLEADS	Negative is a funding advantage, and a fragile one: payables unwind faster than inventory clears, so a volume shock hits cash before it hits profit.

LEVERAGE**Total liabilities ÷ equity****0.97x**

FORMULA	$\text{Total liabilities} \div \text{Total shareholders' equity}$
WORKED	$5,120 \div 5,280$
WHAT IT SAYS	Total obligations against owners' capital. Broader than debt-to-equity because it includes payables, provisions and leases.
WHERE IT MISLEADS	Equity is a book number. Years of buybacks can leave it small or negative, at which point this ratio becomes arithmetically dramatic and analytically useless.

Debt ÷ equity**0.54x**

FORMULA	$(\text{Short-term and current portion of long-term debt} + \text{Long-term debt}) \div \text{Total shareholders' equity}$
WORKED	$(520 + 2,340) \div 5,280$
WHAT IT SAYS	Borrowings against owners' capital — the conventional gearing measure.
WHERE IT MISLEADS	It excludes lease liabilities, which for a retailer or restaurant group are usually the larger obligation. See the lease-adjusted measure below before forming a view.

Debt ÷ total assets**27.5%****FORMULA** $(\text{Short-term and current portion of long-term debt} + \text{Long-term debt}) \div \text{Total assets}$ **WORKED** $(520 + 2,340) \div 10,400$ **WHAT IT SAYS**

What proportion of the asset base is funded by borrowing.

WHERE IT MISLEADS

Asset values are historic cost less depreciation, not market value. In a property-owning business this ratio can overstate gearing considerably.

Financial leverage (assets ÷ equity, avg)**2.08×****FORMULA** $\text{Average total assets} \div \text{Average total shareholders' equity}$ **WORKED** $10,064 \div 4,829$ **WHAT IT SAYS**

The multiplier that converts return on assets into return on equity. It is the third term of the DuPont identity.

WHERE IT MISLEADS

Leverage magnifies in both directions. A business with a 4× multiplier turns a modest fall in ROA into a severe fall in ROE.

Net debt**2,220****FORMULA** $(\text{Short-term and current portion of long-term debt} + \text{Long-term debt}) - \text{Cash and cash equivalents} - \text{Short-term investments}$ **WORKED** $(520 + 2,340) - 640 - -$ **WHAT IT SAYS**

Borrowings less the cash available to repay them. The figure a lender or acquirer works from.

WHERE IT MISLEADS

It assumes the cash is genuinely available. Cash held overseas, restricted, or needed for the working-capital trough is not available, and net debt quietly overstates the position.

Net debt ÷ EBITDA**1.07×****FORMULA** $\text{Net debt} \div \text{EBITDA}$ **WORKED** $2,220 \div 2,080$ **WHAT IT SAYS**

How many years of current earnings it would take to clear the debt. The standard covenant measure.

WHERE IT MISLEADS

EBITDA is the most manipulable line in the accounts. Where the multiple matters — refinancing, a covenant test, a sale — insist on seeing exactly what has been added back.

Debt incl. leases ÷ EBITDA**1.38×****FORMULA** $(\text{Total debt} + \text{Current portion of lease liabilities} + \text{Long-term lease liabilities}) \div \text{EBITDA}$ **WORKED** $(2,860 + - + -) \div 2,080$ **WHAT IT SAYS**

The same test with lease obligations treated as what they economically are: debt. For any business that rents its premises this is the measure that reflects reality.

WHERE IT MISLEADS

A retailer can look conservatively financed on reported debt and fully geared on this measure. If only one leverage number is going to be quoted, it should be this one.

Interest coverage (EBIT ÷ interest)**8.65×****FORMULA** $\text{Operating income} \div \text{Interest expense}$ **WORKED** $1,600 \div 185$ **WHAT IT SAYS**

How many times over operating profit covers the interest bill. The most direct test of whether the debt is affordable.

WHERE IT MISLEADS

It uses profit, not cash. A business can cover interest comfortably on paper and still be unable to pay it if working capital is absorbing the earnings.

CASH FLOW

Operating cash flow margin

8.5%

FORMULA

$$\text{Net cash from operating activities} \div \text{Revenue} / \text{net sales}$$

WORKED

$$1,563 \div 18,400$$

WHAT IT SAYS

How much of each revenue dollar arrives as operating cash. The cash counterpart of net margin.

WHERE IT MISLEADS

A single strong year can be created by stretching payables. Read three years, not one.

Free cash flow

1,013

FORMULA

$$\text{Net cash from operating activities} - |\text{Capital expenditure}|$$

WORKED

$$1,563 - |(550)|$$

WHAT IT SAYS

Cash from operations after the investment needed to keep the asset base intact. This is the real budget — for debt reduction, distributions, or anything a strategy proposes.

WHERE IT MISLEADS

Where capex includes growth as well as maintenance, this understates the cash a steady-state business would throw off. Separating the two is worth the effort when the number is being used to justify a distribution.

Free cash flow margin

5.5%

FORMULA

$$(\text{Net cash from operating activities} - |\text{Capital expenditure}|) \div \text{Revenue} / \text{net sales}$$

WORKED

$$(1,563 - |(550)|) \div 18,400$$

WHAT IT SAYS

Free cash flow per dollar of revenue — the most complete single measure of a business model's quality.

WHERE IT MISLEADS

It moves with the capex cycle. A year of low investment produces a flattering figure that reverses.

Cash conversion (CFO ÷ net income)

1.13x

FORMULA

$$\text{Net cash from operating activities} \div \text{Net income}$$

WORKED

$$1,563 \div 1,378$$

WHAT IT SAYS

Whether reported profit is turning into cash. In the Method this is the first quality-of-earnings test applied to any set of accounts, before any other analysis is trusted.

WHERE IT MISLEADS

Depreciation makes this greater than 1.0 in most capital-intensive businesses, so the bar is not simply "above one" — it is "above one, and stable". A falling trend matters more than the level.

Capex ÷ revenue

3.0%

FORMULA

$$|\text{Capital expenditure}| \div \text{Revenue} / \text{net sales}$$

WORKED

$$|(550)| \div 18,400$$

WHAT IT SAYS

The investment intensity of the business model.

WHERE IT MISLEADS

Comparable only within an industry. Across industries it says more about the sector than the management.

Capex ÷ depreciation

1.15x

FORMULA

$$|\text{Capital expenditure}| \div \text{Depreciation and amortisation}$$

WORKED

$$|(550)| \div 480$$

WHAT IT SAYS

Whether the asset base is being replaced as fast as it is being consumed. Around 1.0 is steady state; sustained below 1.0 is harvesting.

WHERE IT MISLEADS

Below 1.0 for one year is a timing matter. Below 1.0 for three years is a decision, and it flatters present cash flow at the cost of future capacity.

Dividend payout ratio**35.2%**

FORMULA |Dividends paid| ÷ Net income

WORKED |(485)| ÷ 1,378

WHAT IT SAYS What share of earnings is distributed rather than reinvested.

WHERE IT MISLEADS Earnings are an accounting figure. Test the dividend against free cash flow as well — a payout that looks safe on earnings can be funded by borrowing.

Shareholder returns ÷ FCF**0.48×**

FORMULA (|Dividends paid| + |Repurchases of common stock|) ÷ Free cash flow

WORKED (|(485)| + |-|) ÷ 1,013

WHAT IT SAYS Total distributions against the cash actually generated. Above 1.0 means the balance sheet is funding the difference.

WHERE IT MISLEADS Sustainable for a period, and only for a period. Where this has exceeded 1.0 for several years, ask what has been given up to maintain it.

NORMALISED EARNINGS**Adjusted EBITDA****2,715**

FORMULA EBITDA + Total normalisations

WORKED 2,080 + Total normalisations

WHAT IT SAYS Reported EBITDA plus costs that would not exist under different ownership. In private-company work this — not net income — is the number a buyer, a lender and a valuer all work from.

WHERE IT MISLEADS It is only as good as the schedule behind it. An add-back that cannot be documented will be removed in diligence, and the price moves by the multiple times the amount removed. At a 5× multiple, a \$100k add-back that fails is \$500k off the table.

Adjusted EBITDA margin**14.8%**

FORMULA Adjusted EBITDA ÷ Revenue / net sales

WORKED Adjusted EBITDA ÷ 18,400

WHAT IT SAYS The margin on a normalised basis. This is the figure that is comparable to a peer set or a transaction database.

WHERE IT MISLEADS Comparing an adjusted margin to a peer group's reported margin double-counts the adjustment and flatters the entity. Both sides must be on the same basis.

Seller's discretionary earnings (SDE)**2,955**

FORMULA EBITDA + Total normalisations + Owner base compensation

WORKED 2,080 + Total normalisations + Owner base compensation

WHAT IT SAYS What a single owner-operator would have available from the business — earnings plus the whole of one owner's compensation. The convention for businesses small enough that the buyer intends to run them personally.

WHERE IT MISLEADS SDE and EBITDA multiples are not interchangeable. SDE multiples are systematically lower because SDE is a larger number. Applying an EBITDA multiple to SDE is one of the most common and most expensive errors in small-business valuation.

Normalisations ÷ reported EBITDA**30.5%**

FORMULA Total normalisations ÷ EBITDA

WORKED Total normalisations ÷ 2,080

WHAT IT SAYS How much of the adjusted figure is construction rather than result.

WHERE IT MISLEADS There is no bright line, but past roughly a quarter the schedule becomes the main object of diligence rather than the business. High intensity is not dishonest — it is normal in owner-managed companies — but it demands proportionately better evidence.

PRODUCTIVITY

Revenue per employee

191,667

FORMULA

Revenue / net sales ÷ Headcount

WORKED

18,400 ÷ Headcount

WHAT IT SAYS

Output per person. One of the few measures that compares honestly across businesses of very different size, and a fair proxy for how much leverage the operating model gets from labour.

WHERE IT MISLEADS

Outsourcing and contract labour move work off the payroll without moving it out of the business, which improves this ratio while changing nothing. Read it beside cost of sales.

Operating income per employee

16,667

FORMULA

Operating income ÷ Headcount

WORKED

1,600 ÷ Headcount

WHAT IT SAYS

Profit contribution per person. Harder to flatter than revenue per employee.

WHERE IT MISLEADS

Sensitive to capital intensity. An automated business will beat a labour-intensive one on this measure regardless of which is better run.

VALUATION — OBSERVED

Market capitalisation

FORMULA

Share price × Shares outstanding

WORKED

Share price × Shares outstanding

WHAT IT SAYS

The market's valuation of the equity. Only the equity — it says nothing about the debt sitting alongside it.

WHERE IT MISLEADS

Two identical businesses with different gearing will show very different market caps. This is why EBITDA is compared to enterprise value and never to market capitalisation.

Enterprise value (incl. leases)

FORMULA

Market capitalisation + Total debt + Lease liabilities – Cash and cash equivalents – Short-term investments

WORKED

Market capitalisation + 2,860 + Lease liabilities – 640 – –

WHAT IT SAYS

The value of the whole business independent of how it is funded. The correct numerator for any multiple whose denominator is available to all providers of capital — EBITDA, EBIT, revenue.

WHERE IT MISLEADS

Whether leases belong in the bridge depends on whether the earnings denominator is before or after rent. Post-IFRS 16 and ASC 842 the rent has already left EBITDA, so leases must be added. Mixing the two conventions is a common and material error.

EV ÷ EBITDA

FORMULA

Enterprise value ÷ EBITDA

WORKED

Enterprise value ÷ 2,080

WHAT IT SAYS

The standard whole-business multiple, and the one most transaction data is quoted on.

WHERE IT MISLEADS

It ignores capital intensity entirely. Two businesses on the same multiple are not equally priced if one reinvests half its EBITDA and the other reinvests a tenth.

EV ÷ Adjusted EBITDA

FORMULA

Enterprise value ÷ Adjusted EBITDA

WORKED

Enterprise value ÷ Adjusted EBITDA

WHAT IT SAYS

The same multiple on normalised earnings — the basis on which private transactions are actually struck.

WHERE IT MISLEADS

Only comparable to other multiples struck on adjusted earnings. Check what the comparable set was adjusted for before drawing the comparison.

EV ÷ revenue

FORMULA

Enterprise value ÷ Revenue / net sales

WORKED

Enterprise value ÷ 18,400

WHAT IT SAYS

A fallback where earnings are negative, volatile or not yet meaningful.

WHERE IT
MISLEADS

It says nothing whatsoever about profitability. It is a measure of last resort, and it is quoted most often by those who would rather not discuss margin.

Price ÷ earnings (diluted)

FORMULA

Share price ÷ Diluted earnings per share

WORKED

Share price ÷ —

WHAT IT SAYS

The most quoted equity multiple. What the market pays for a unit of reported earnings.

WHERE IT
MISLEADS

Distorted by leverage, tax position and one-off items — all three of which sit inside the denominator. A low P/E is as often a warning as a bargain.

Price ÷ book value

FORMULA

Market capitalisation ÷ Total shareholders' equity

WORKED

Market capitalisation ÷ 5,280

WHAT IT SAYS

Market value against accounting net worth.

WHERE IT
MISLEADS

Book equity is historic cost less depreciation and is reduced by buybacks. In an asset-light or heavily bought-back business it approaches meaninglessness.

Free cash flow yield

FORMULA

(Net cash from operating activities – |Capital expenditure|) ÷ Market capitalisation

WORKED

(1,563 – |(550)|) ÷ Market capitalisation

WHAT IT SAYS

Cash generated for the equity as a percentage of what the equity costs. The most direct answer to what an owner actually receives.

WHERE IT
MISLEADS

Compare it to a risk-free rate to know whether it is generous. In isolation the number means very little.

Dividend yield

FORMULA

Dividends declared per share ÷ Share price

WORKED

— ÷ Share price

WHAT IT SAYS

Cash income per unit of price.

WHERE IT
MISLEADS

A high yield is often a falling price rather than a rising dividend. Check which has moved before treating it as attractive.

VALUATION — CONSTRUCTED**Indicative enterprise value — low****10,860**

FORMULA

Chosen earnings basis × Low multiple

WORKED

Chosen earnings basis × Low multiple

WHAT IT SAYS

The conservative end of the constructed range.

WHERE IT
MISLEADS

The range is the answer. Quoting the base case alone converts a genuine uncertainty into a false precision, and it is the base case that will be quoted back at you.

Indicative enterprise value — base**13,575**

FORMULA

Chosen earnings basis × Base multiple

WORKED

Chosen earnings basis × Base multiple

WHAT IT SAYS

The central case of the constructed range.

WHERE IT
MISLEADS

A multiple is a summary of what other businesses sold for. It carries their growth, their customer concentration and their management depth — none of which are this business's.

Indicative enterprise value — high**16,290**

FORMULA	Chosen earnings basis × High multiple
WORKED	Chosen earnings basis × High multiple
WHAT IT SAYS	The optimistic end, normally requiring a strategic rather than a financial buyer.
WHERE IT MISLEADS	The high case usually assumes a synergy the seller does not own and cannot deliver. It is a negotiating position, not a valuation.

Indicative equity value — base**11,355**

FORMULA	Indicative enterprise value – Net debt
WORKED	Indicative enterprise value – 2,220
WHAT IT SAYS	What the owners would receive on a cash-free, debt-free basis at the base multiple.
WHERE IT MISLEADS	Before the working-capital peg, transaction costs and tax. The headline number and the wire transfer are rarely close.

Implied multiple at the stated price**5.97×**

FORMULA	(Stated price + Net debt) ÷ Chosen earnings basis
WORKED	(Stated price + 2,220) ÷ Chosen earnings basis
WHAT IT SAYS	Reverses the arithmetic to reveal what a price is actually assuming. The most useful single question to ask of any offer.
WHERE IT MISLEADS	If the implied multiple sits above the evidenced range, the difference is either information you do not have or optimism you should not pay for. Establish which before responding.

PER SHARE**Diluted EPS**

FORMULA	Net income ÷ Weighted-average shares – diluted
WORKED	1,378 ÷ –
WHAT IT SAYS	Earnings attributable to each share, assuming all dilutive instruments convert.
WHERE IT MISLEADS	EPS rises when shares are bought back even if profit is flat. Growth in EPS is not by itself growth in the business.

Book value per share

FORMULA	Total shareholders' equity ÷ Weighted-average shares – diluted
WORKED	5,280 ÷ –
WHAT IT SAYS	Accounting net worth per share.
WHERE IT MISLEADS	Historic cost, so it says little about what the assets are worth. In an asset-light business it can be close to meaningless.

Dividends per share

FORMULA	Declared dividend per share, as reported
WORKED	Declared dividend per share, as reported
WHAT IT SAYS	The cash returned per share.
WHERE IT MISLEADS	Compare the trend to the trend in free cash flow per share, not to earnings per share.

FCF per share

FORMULA	(Net cash from operating activities – Capital expenditure) ÷ Weighted-average shares – diluted
WORKED	(1,563 – (550)) ÷ –
WHAT IT SAYS	Free cash flow attributable to each share — the per-share measure hardest to manipulate.
WHERE IT MISLEADS	Volatile year to year because capex is lumpy. Read it as a three-year average.

Evidence and assumptions

Every figure in this document traces to a source. Where a figure is modelled or estimated rather than observed, it is marked as such here. A number without a source is not evidence.

FIGURE / CLAIM	SOURCE	REF	CONFIDENCE	ASSUMPTION
All financial statement figures	Reviewed financial statements FY2022–FY2025	—	Medium	Reviewed, not audited — limited assurance only
Owner compensation add-back	Payroll register; regional compensation benchmark	—	High	Documented against three regional comparables
Related-party rent add-back	Lease agreement; independent market appraisal	—	High	Documented
Personal expenses add-back	General ledger review	—	Medium	Estimated from ledger coding; individual transactions not vouched
Family payroll add-back	Management representation	—	Low	Asserted by management; no corroboration obtained. Will not survive diligence in this form.
Valuation multiple range	DealStats transaction database	—	Medium	n=38; thin but the best evidence available at this transaction size
Customer concentration	Management sales analysis FY2025	—	Medium	Top three customers 47% of revenue

BASIS OF PREPARATION

Figures are stated in \$ thousands. Fiscal year end: 31 December. Ratios using average balances are computed on the mean of opening and closing balance-sheet values. Days measures assume a 365-day year. Derived subtotals are computed from their components; where a reported subtotal has been entered directly it overrides the computation.

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