



BY FENWICK HOW

THE APERTURE METHOD™ · PHASE 02 — QUANTIFY

Best Buy Co., Inc.

Financial Analysis & Profit Map

PUBLIC COMPANY

NYSE : BBY · C CORPORATION · 60 YEARS IN OPERATION

MODULE	Aperture Analytics™
ENGAGEMENT	APM-2026-DEMO
INDUSTRY	Specialty retail — consumer electronics
LISTING	NYSE : BBY
CONTACT	Investor Relations
WEBSITE	investors.bestbuy.com
LOCATION	Richfield, Minnesota
FISCAL YEAR END	Last Saturday of January (52/53-week fiscal year)
PERIODS	Jan 28, 2023 · Feb 3, 2024 · Feb 1, 2025 · Jan 31, 2026
UNITS	\$ millions
PREPARED BY	Fenwick How
DATE	16 August 2026
SOURCE	Form 10-K, fiscal 2025 (year ended 31 January 2026)

02

Executive summary

HEADLINE JUDGEMENT

Revenue has been broadly flat for three years while the asset base has shrunk, so what looks like a recovery in returns is substantially a denominator effect. Margin, not productivity, is what moved: gross margin has held, but two consecutive years of goodwill impairment and restructuring have absorbed operating income. Cash generation remains the strongest feature of the business — operating cash flow covers capital expenditure roughly three times over — and the balance sheet is funded largely by suppliers rather than by lenders.

The question this analysis raises but cannot answer is whether the flat revenue line reflects a market that has stopped growing or a share position that is slipping. That distinction determines whether the constraint is demand or execution, and the two require opposite responses.

REVENUE 41,691 \$ millions	GROSS MARGIN 22.5% Jan 31, 2026	OPERATING MARGIN 3.3% Jan 31, 2026	NET MARGIN 2.6% Jan 31, 2026
RETURN ON ASSETS 7.3% average balances	RETURN ON EQUITY 37.0% average balances	CURRENT RATIO 1.11× Jan 31, 2026	FREE CASH FLOW 1,258 \$ millions

BUSINESS ACTIVITIES

A specialty retailer of consumer electronics, computing, appliances, mobile phones and related services, operating through physical stores and digital channels. Revenue is overwhelmingly merchandise sales, with a growing contribution from services, membership fees, the digital marketplace and retail media. The store estate is the primary asset and the primary fixed cost, which is what makes the flat revenue line in this analysis a question about the estate as much as about demand.

Reportable segments	Two reportable segments — Domestic and International
Revenue streams	Merchandise sales; services and support; membership subscriptions; retail media and marketplace
Geographies	United States and Canada
Fiscal year end	Last Saturday of January (52/53-week fiscal year)

REPORTING AND AUDIT

Basis of preparation	Audited — US GAAP
Auditor	Deloitte & Touche LLP — engaged since 2005
Opinion	Unqualified — clean opinion
Internal control over financial reporting	Effective — no material weaknesses
Departs from the standard unqualified form	No — follows the standard unqualified form

The auditor found the statements fairly presented in all material respects. This is the floor, not a finding — read the critical audit matters for what the auditor actually worried about.

CRITICAL AUDIT MATTERS AND CONCERNS RAISED

The critical audit matter concerns the valuation of vendor allowances, which are material, involve significant management estimation, and directly affect reported gross margin. This is the single most useful sentence in the audit report for this analysis: it says the auditor found the gross-margin line the hardest thing in the statements to support, and gross margin is precisely the line this analysis has called the most encouraging fact in the file.

The opinion on internal control over financial reporting was unqualified. No going-concern matter was raised.

Executive summary (continued)

RISK FACTORS CARRIED FORWARD

Category demand is tied to consumer electronics replacement cycles, which are lengthening.

Price transparency in the category is near total, so gross margin is defended by mix and services rather than by pricing power.

A concentrated vendor base — a small number of manufacturers account for the majority of merchandise purchased.

BINDING CONSTRAINT — CANDIDATES

Candidate 1 — Demand, not capability. Revenue is flat across three years while margin holds, which is the signature of a category that has stopped growing rather than an operator that is failing. Disconfirming evidence would be category data showing the market growing while this entity does not.

Candidate 2 — Capital allocation. Two goodwill impairments in three years is an admission that acquired growth did not deliver. Disconfirming evidence would be impairments driven by discount-rate movements rather than by underperformance against the original acquisition case.

Candidate 3 — Asset productivity in the store estate. Capex below depreciation for three years, with a flat revenue line, suggests the estate is being harvested. Disconfirming evidence would be sales-per-square-foot holding steady on a shrinking footprint.

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	Public — listed — Traded on a public exchange. Filings are audited and periodic.
Legal form	C corporation · Entity-level taxation
Listing	NYSE : BBY
Contact	Investor Relations
Location	Richfield, Minnesota · investors.bestbuy.com
Basis of preparation	Audited — US GAAP · default evidence confidence High
Founded	1966 — 60 years in operation
Lifecycle stage	Mature — insufficient revenue history
Headcount	85,000 at Jan 31, 2026 · revenue per employee 490,482 USD

WHAT THIS MEANS FOR THE ANALYSIS

Evidence weight Audited under a recognised framework. The strongest evidence available short of primary records.
Value is observed, not assumed Market capitalisation and enterprise value are computed from the share price. Multiples are read from the market rather than applied to it.

Valuation

OBSERVED VALUE

MARKET CAPITALISATION 14,637 price × shares	ENTERPRISE VALUE 17,032 incl. leases, net of cash	EV ÷ EBITDA 7.67× lease-adjusted	FREE CASH FLOW YIELD 8.6% FCF ÷ market cap
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A listed entity carries its own price, so these multiples are read from the market rather than applied to it. Enterprise value is the correct comparator for EBITDA because it values the whole business; market capitalisation values only the equity and moves with gearing.

COMMENTARY

Share prices in this worked example are ILLUSTRATIVE placeholders, not market data — replace them with observed closing prices at each period end before quoting any multiple. Headcount is approximate and rounded. The valuation section is included to demonstrate the mechanics; the multiples it produces are not evidence.

Balance sheet

BALANCE SHEET (\$ MILLIONS)	JAN 31, 2026	FEB 1, 2025	FEB 3, 2024	JAN 28, 2023
CURRENT ASSETS				
Cash and cash equivalents	1,738	1,578	1,447	1,874
Receivables, net	1,043	1,044	939	1,141
Inventories	5,230	5,085	4,958	5,140
Other current assets	493	517	553	647
Total current assets	8,504	8,224	7,897	8,802
NON-CURRENT ASSETS				
Gross property and equipment	6,941	7,052	7,076	6,976
Less: accumulated depreciation	4,955	4,930	4,816	4,624
Net property and equipment	1,986	2,122	2,260	2,352
Operating lease right-of-use assets	2,869	2,833	2,758	2,746
Goodwill	790	908	1,383	1,383
Other assets	521	695	669	520
Total assets	14,670	14,782	14,967	15,803
CURRENT LIABILITIES				
Accounts payable	4,745	4,980	4,637	5,687
Accrued compensation	423	464	486	405
Accrued liabilities	742	741	902	843
Deferred revenue	1,135	1,204	1,253	1,390
Current portion of lease liabilities	623	617	618	638
Short-term and current portion of long-term debt	11	10	13	16
Total current liabilities	7,679	8,016	7,909	8,979
NON-CURRENT LIABILITIES				
Long-term debt	1,165	1,144	1,152	705
Long-term lease liabilities	2,334	2,282	2,199	2,164
Other long-term liabilities	528	532	654	1,160
Total liabilities	11,706	11,974	11,914	13,008
SHAREHOLDERS' EQUITY				
Common stock	22	22	22	22
Additional paid-in capital	14	0	31	21
Retained earnings	2,610	2,486	2,683	2,430
Accumulated other comprehensive income (loss)	318	300	317	322
Total shareholders' equity	2,964	2,808	3,053	2,795
Total liabilities and shareholders' equity	14,670	14,782	14,967	15,803
SHARE DATA (MEMO)				
Common shares outstanding	209.10	211.40	215.40	218.10
Dividends declared per share	3.80	3.76	3.68	3.52

COMMENTARY

Working capital is thin — a current ratio of roughly 1.1× — and the shape of it matters more than the level. Accounts payable of \$4.7bn sit against inventory of \$5.2bn, so suppliers are financing the greater part of the stock the business holds. In fast-turning retail that is a structural advantage rather than a warning, but it is an advantage that reverses violently if volumes fall, because payables unwind faster than inventory clears. Goodwill has fallen from \$1,383m to \$790m through two impairments; what remains is 5% of assets and no longer a material impairment exposure. Reported debt of about \$1.2bn understates the true obligation — operating lease liabilities of roughly \$2.9bn are debt in substance, and the leverage picture should be read on that basis.

Income statement

INCOME STATEMENT (\$ MILLIONS)	JAN 31, 2026	FEB 1, 2025	FEB 3, 2024	JAN 28, 2023
Revenue / net sales	41,691	41,528	43,452	—
Cost of sales	32,318	32,143	33,849	—
Gross profit	9,373	9,385	9,603	—
OPERATING EXPENSES				
Selling, general and administrative	7,623	7,651	7,876	—
Restructuring charges	190	(3)	153	—
Impairment charges	171	475	0	—
Operating income	1,389	1,262	1,574	—
NON-OPERATING				
Interest expense	47	51	52	—
Interest and investment income	68	84	78	—
Other income (expense), net	(6)	0	21	—
Income before income taxes	1,404	1,295	1,621	—
Income tax expense	337	372	381	—
Equity in earnings of affiliates	2	4	1	—
Net income	1,069	927	1,241	—
PER SHARE (MEMO)				
Basic earnings per share	5.06	4.31	5.70	—
Diluted earnings per share	5.04	4.28	5.68	—
Weighted-average shares — basic	211.00	215.20	217.70	—
Weighted-average shares — diluted	212.10	216.60	218.50	—

COMMENTARY

Gross margin has been remarkably stable at around 22.5% across all three years, which for a consumer-electronics retailer is the single most encouraging fact in the statements — it says pricing has held in a category where it usually does not. The volatility sits below the gross-margin line: goodwill impairment of \$475m in fiscal 2024 and \$171m in fiscal 2025, together with restructuring charges, account for almost the whole of the swing in operating income. Adjusting for both, underlying operating margin is materially steadier than the reported line suggests, and the reported line understates the operating performance in exactly the years management would most like it understated.

Cash flow statement

CASH FLOW STATEMENT (\$ MILLIONS)	JAN 31, 2026	FEB 1, 2025	FEB 3, 2024	JAN 28, 2023
OPERATING ACTIVITIES				
Net income	1,069	927	1,241	—
Depreciation and amortisation	831	866	923	—
Stock-based compensation	139	139	145	—
Impairment charges	192	477	2	—
Restructuring charges	190	(3)	153	—
Deferred income taxes	60	(59)	(214)	—
Other non-cash items	20	10	3	—
Change in receivables	(3)	(111)	204	—
Change in inventories	(126)	(155)	178	—
Change in accounts payable	(238)	358	(1,025)	—
Change in other working capital	(172)	(351)	(140)	—
Net cash from operating activities	1,962	2,098	1,470	—
INVESTING ACTIVITIES				
Capital expenditure	(704)	(706)	(795)	—
Purchases of investments	(1)	(26)	(9)	—
Sales and maturities of investments	(27)	20	21	—
Other investing activities	2	8	2	—
Net cash from investing activities	(730)	(704)	(781)	—
FINANCING ACTIVITIES				
Repayments of debt	(13)	(17)	(19)	—
Repurchases of common stock	(273)	(500)	(340)	—
Issuance of common stock	5	17	19	—
Dividends paid	(801)	(807)	(801)	—
Other financing activities	(1)	(2)	(3)	—
Net cash from financing activities	(1,083)	(1,309)	(1,144)	—
RECONCILIATION				
Effect of exchange rate changes	6	(10)	(5)	—
Net change in cash	155	75	(460)	—
Cash at beginning of period	1,868	1,793	2,253	—
Cash at end of period	2,023	1,868	1,793	—

COMMENTARY

Operating cash flow has exceeded net income in every period, which is the quality-of-earnings signal one wants to see, and is largely explained by depreciation running ahead of capital expenditure. Free cash flow comfortably covers the dividend. The concern is directional rather than immediate: capital expenditure has been below depreciation for three consecutive years. That flatters present cash flow at the cost of a store estate that is quietly ageing, and the bill arrives later.

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)	JAN 31, 2026	FEB 1, 2025	FEB 3, 2024	JAN 28, 2023
CURRENT ASSETS				
Cash and cash equivalents	11.8%	10.7%	9.7%	11.9%
Receivables, net	7.1%	7.1%	6.3%	7.2%
Inventories	35.7%	34.4%	33.1%	32.5%
Other current assets	3.4%	3.5%	3.7%	4.1%
Total current assets	58.0%	55.6%	52.8%	55.7%
NON-CURRENT ASSETS				
Gross property and equipment	47.3%	47.7%	47.3%	44.1%
Less: accumulated depreciation	33.8%	33.4%	32.2%	29.3%
Net property and equipment	13.5%	14.4%	15.1%	14.9%
Operating lease right-of-use assets	19.6%	19.2%	18.4%	17.4%
Goodwill	5.4%	6.1%	9.2%	8.8%
Other assets	3.6%	4.7%	4.5%	3.3%
Total assets	100.0%	100.0%	100.0%	100.0%
CURRENT LIABILITIES				
Accounts payable	32.3%	33.7%	31.0%	36.0%
Accrued compensation	2.9%	3.1%	3.2%	2.6%
Accrued liabilities	5.1%	5.0%	6.0%	5.3%
Deferred revenue	7.7%	8.1%	8.4%	8.8%
Current portion of lease liabilities	4.2%	4.2%	4.1%	4.0%
Short-term and current portion of long-term debt	0.1%	0.1%	0.1%	0.1%
Total current liabilities	52.3%	54.2%	52.8%	56.8%
NON-CURRENT LIABILITIES				
Long-term debt	7.9%	7.7%	7.7%	4.5%
Long-term lease liabilities	15.9%	15.4%	14.7%	13.7%
Other long-term liabilities	3.6%	3.6%	4.4%	7.3%
Total liabilities	79.8%	81.0%	79.6%	82.3%
SHAREHOLDERS' EQUITY				
Common stock	0.1%	0.1%	0.1%	0.1%
Additional paid-in capital	0.1%	0.0%	0.2%	0.1%
Retained earnings	17.8%	16.8%	17.9%	15.4%
Accumulated other comprehensive income (loss)	2.2%	2.0%	2.1%	2.0%
Total shareholders' equity	20.2%	19.0%	20.4%	17.7%
Total liabilities and shareholders' equity	100.0%	100.0%	100.0%	100.0%
SHARE DATA (MEMO)				

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)	JAN 31, 2026	FEB 1, 2025	FEB 3, 2024	JAN 28, 2023
Revenue / net sales	100.0%	100.0%	100.0%	—
Cost of sales	77.5%	77.4%	77.9%	—
Gross profit	22.5%	22.6%	22.1%	—
OPERATING EXPENSES				
Selling, general and administrative	18.3%	18.4%	18.1%	—
Restructuring charges	0.5%	-0.0%	0.4%	—
Impairment charges	0.4%	1.1%	0.0%	—
Operating income	3.3%	3.0%	3.6%	—
NON-OPERATING				
Interest expense	0.1%	0.1%	0.1%	—
Interest and investment income	0.2%	0.2%	0.2%	—
Other income (expense), net	-0.0%	0.0%	0.0%	—
Income before income taxes	3.4%	3.1%	3.7%	—
Income tax expense	0.8%	0.9%	0.9%	—
Equity in earnings of affiliates	0.0%	0.0%	0.0%	—
Net income	2.6%	2.2%	2.9%	—
PER SHARE (MEMO)				

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)	FEB 3, 2024	FEB 1, 2025	JAN 31, 2026	CAGR
Revenue / net sales	—	-4.4%	0.4%	—
Cost of sales	—	-5.0%	0.5%	—
Gross profit	—	-2.3%	-0.1%	—
OPERATING EXPENSES				
Selling, general and administrative	—	-2.9%	-0.4%	—
Restructuring charges	—	-102.0%	6433.3%	—
Impairment charges	—	—	-64.0%	—
Operating income	—	-19.8%	10.1%	—
NON-OPERATING				
Interest expense	—	-1.9%	-7.8%	—
Interest and investment income	—	7.7%	-19.0%	—
Other income (expense), net	—	-100.0%	—	—
Income before income taxes	—	-20.1%	8.4%	—
Income tax expense	—	-2.4%	-9.4%	—
Equity in earnings of affiliates	—	300.0%	-50.0%	—
Net income	—	-25.3%	15.3%	—
PER SHARE (MEMO)				

Horizontal analysis — balance sheet

BALANCE SHEET (% CHANGE)	FEB 3, 2024	FEB 1, 2025	JAN 31, 2026	CAGR
CURRENT ASSETS				
Cash and cash equivalents	-22.8%	9.1%	10.1%	-2.5%
Receivables, net	-17.7%	11.2%	-0.1%	-2.9%
Inventories	-3.5%	2.6%	2.9%	0.6%
Other current assets	-14.5%	-6.5%	-4.6%	-8.7%
Total current assets	-10.3%	4.1%	3.4%	-1.1%
NON-CURRENT ASSETS				
Gross property and equipment	1.4%	-0.3%	-1.6%	-0.2%
Less: accumulated depreciation	4.2%	2.4%	0.5%	2.3%
Net property and equipment	-3.9%	-6.1%	-6.4%	-5.5%
Operating lease right-of-use assets	0.4%	2.7%	1.3%	1.5%
Goodwill	0.0%	-34.3%	-13.0%	-17.0%
Other assets	28.7%	3.9%	-25.0%	0.1%
Total assets	-5.3%	-1.2%	-0.8%	-2.4%
CURRENT LIABILITIES				
Accounts payable	-18.5%	7.4%	-4.7%	-5.9%
Accrued compensation	20.0%	-4.5%	-8.8%	1.5%
Accrued liabilities	7.0%	-17.8%	0.1%	-4.2%
Deferred revenue	-9.9%	-3.9%	-5.7%	-6.5%
Current portion of lease liabilities	-3.1%	-0.2%	1.0%	-0.8%
Short-term and current portion of long-term debt	-18.8%	-23.1%	10.0%	-11.7%
Total current liabilities	-11.9%	1.4%	-4.2%	-5.1%
NON-CURRENT LIABILITIES				
Long-term debt	63.4%	-0.7%	1.8%	18.2%
Long-term lease liabilities	1.6%	3.8%	2.3%	2.6%
Other long-term liabilities	-43.6%	-18.7%	-0.8%	-23.1%
Total liabilities	-8.4%	0.5%	-2.2%	-3.5%
SHAREHOLDERS' EQUITY				
Common stock	0.0%	0.0%	0.0%	0.0%
Additional paid-in capital	47.6%	-100.0%	—	-12.6%
Retained earnings	10.4%	-7.3%	5.0%	2.4%
Accumulated other comprehensive income (loss)	-1.6%	-5.4%	6.0%	-0.4%
Total shareholders' equity	9.2%	-8.0%	5.6%	2.0%
Total liabilities and shareholders' equity	-5.3%	-1.2%	-0.8%	-2.4%
SHARE DATA (MEMO)				

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	JAN 28, 2023	FEB 3, 2024	FEB 1, 2025	JAN 31, 2026
Net income	—	1,241	927	1,069
Revenue	—	43,452	41,528	41,691
Average total assets	—	15,385	14,875	14,726
Average total equity	—	2,924	2,931	2,886
Profit margin (PM)	—	2.86%	2.23%	2.56%
Asset turnover (AT)	—	2.82×	2.79×	2.83×
Return on assets = PM × AT	—	8.07%	6.23%	7.26%
Financial leverage (avg assets ÷ avg equity)	—	5.26×	5.08×	5.10×
Return on equity = PM × AT × Leverage	—	42.44%	31.63%	37.04%

COMMENTARY

The DuPont decomposition is decisive. Asset turnover has been essentially constant at roughly 2.8×, which means productivity is not the story. Profit margin is what moved, and it moved because of impairment and restructuring rather than because of trading. Return on assets therefore recovers in the most recent year without regaining its earlier level. Note also that average total assets have fallen every year — part of the improvement in ROA is the asset base shrinking, not the earnings growing, and a return that improves because the denominator is contracting is not the same achievement as one that improves because the numerator is.

Ratio analysis

RATIO	JAN 28, 2023	FEB 3, 2024	FEB 1, 2025	JAN 31, 2026
PROFITABILITY				
Gross margin	—	22.1%	22.6%	22.5%
Operating margin	—	3.6%	3.0%	3.3%
EBITDA margin	—	5.7%	5.1%	5.3%
Pre-tax margin	—	3.7%	3.1%	3.4%
Net profit margin	—	2.9%	2.2%	2.6%
Effective tax rate	—	23.5%	28.7%	24.0%
RETURNS				
Return on assets (avg)	—	8.1%	6.2%	7.3%
Return on equity (avg)	—	42.4%	31.6%	37.0%
Return on invested capital	—	43.5%	37.7%	43.9%
LIQUIDITY				
Current ratio	0.98×	1.00×	1.03×	1.11×
Quick ratio	0.41×	0.37×	0.39×	0.43×
Cash ratio	0.21×	0.18×	0.20×	0.23×
Working capital	(177)	(12)	208	825
Working capital ÷ revenue	—	-0.0%	0.5%	2.0%
EFFICIENCY				
Asset turnover (avg)	—	2.82×	2.79×	2.83×
Fixed-asset turnover (avg)	—	18.84×	18.95×	20.30×
Inventory turnover (avg)	—	6.70×	6.40×	6.27×
Days inventory (DIO)	—	54d	57d	58d
Days sales outstanding (DSO)	—	9d	9d	9d
Days payable outstanding (DPO)	—	56d	55d	55d
Cash conversion cycle	—	8d	11d	12d
LEVERAGE				
Total liabilities ÷ equity	4.65×	3.90×	4.26×	3.95×
Debt ÷ equity	0.26×	0.38×	0.41×	0.40×
Debt ÷ total assets	4.6%	7.8%	7.8%	8.0%
Financial leverage (assets ÷ equity, avg)	—	5.26×	5.08×	5.10×
Net debt	(1,153)	(282)	(424)	(562)
Net debt ÷ EBITDA	—	-0.11×	-0.20×	-0.25×
Debt incl. leases ÷ EBITDA	—	1.59×	1.90×	1.86×
Interest coverage (EBIT ÷ interest)	—	30.27×	24.75×	29.55×
CASH FLOW				
Operating cash flow margin	—	3.4%	5.1%	4.7%
Free cash flow	—	675	1,392	1,258
Free cash flow margin	—	1.6%	3.4%	3.0%
Cash conversion (CFO ÷ net income)	—	1.18×	2.26×	1.84×
Capex ÷ revenue	—	1.8%	1.7%	1.7%
Capex ÷ depreciation	—	0.86×	0.82×	0.85×
Dividend payout ratio	—	64.5%	87.1%	74.9%
Shareholder returns ÷ FCF	—	1.69×	0.94×	0.85×

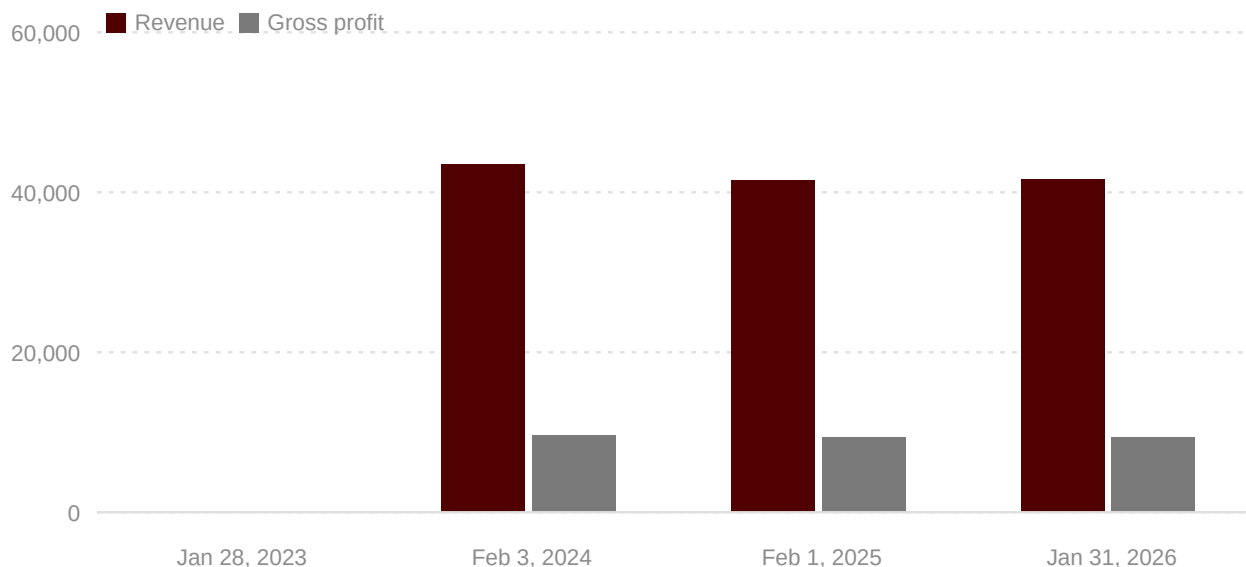
Ratio analysis (continued)

RATIO	JAN 28, 2023	FEB 3, 2024	FEB 1, 2025	JAN 31, 2026
NORMALISED EARNINGS				
Adjusted EBITDA	—	2,497	2,128	2,220
Adjusted EBITDA margin	—	5.7%	5.1%	5.3%
Seller's discretionary earnings (SDE)				
Not applicable — A small-business measure. SDE adds back a single owner-operator's whole compensation, which has no meaning where management is salaried and separate from ownership.	n/a	n/a	n/a	n/a
Normalisations ÷ reported EBITDA	—	—	—	—
PRODUCTIVITY				
Revenue per employee	—	482,800	482,884	490,482
Operating income per employee	—	17,489	14,674	16,341
VALUATION — OBSERVED				
Market capitalisation	17,884	16,370	18,603	14,637
Enterprise value (incl. leases)	19,533	18,905	21,078	17,032
EV ÷ EBITDA	—	7.57×	9.91×	7.67×
EV ÷ Adjusted EBITDA	—	7.57×	9.91×	7.67×
EV ÷ revenue	—	0.44×	0.51×	0.41×
Price ÷ earnings (diluted)	—	13.38×	20.56×	13.89×
Price ÷ book value	6.40×	5.36×	6.63×	4.94×
Free cash flow yield	—	4.1%	7.5%	8.6%
Dividend yield	4.3%	4.8%	4.3%	5.4%
VALUATION — CONSTRUCTED				
Indicative enterprise value — low				
Not applicable — No multiple range entered — set one on the Setup tab.	n/a	n/a	n/a	n/a
Indicative enterprise value — base				
Not applicable — No multiple range entered.	n/a	n/a	n/a	n/a
Indicative enterprise value — high				
Not applicable — No multiple range entered.	n/a	n/a	n/a	n/a
Indicative equity value — base				
Not applicable — No multiple range entered.	n/a	n/a	n/a	n/a
Implied multiple at the stated price				
Not applicable — No asking or offered price recorded.	n/a	n/a	n/a	n/a
PER SHARE				
Diluted EPS	—	5.68	4.28	5.04
Book value per share	12.82	13.97	12.96	13.97
Dividends per share	3.52	3.68	3.76	3.80
FCF per share	—	3.09	6.43	5.93

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

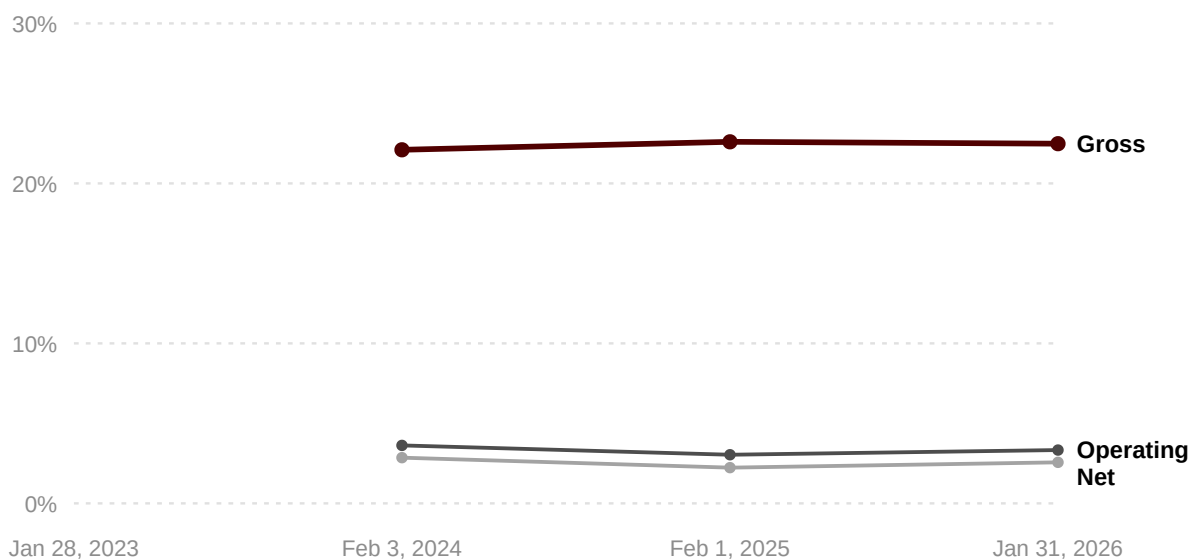
Charts

REVENUE AND GROSS PROFIT



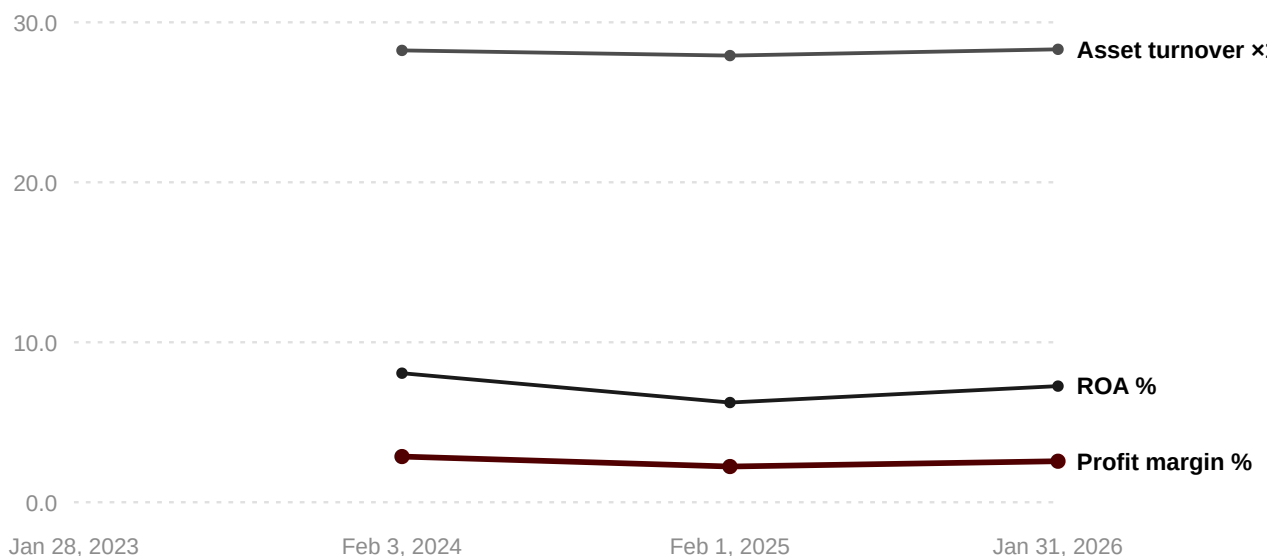
Figures in \$ millions. Source: Form 10-K, fiscal 2025 (year ended 31 January 2026).

MARGIN TREND



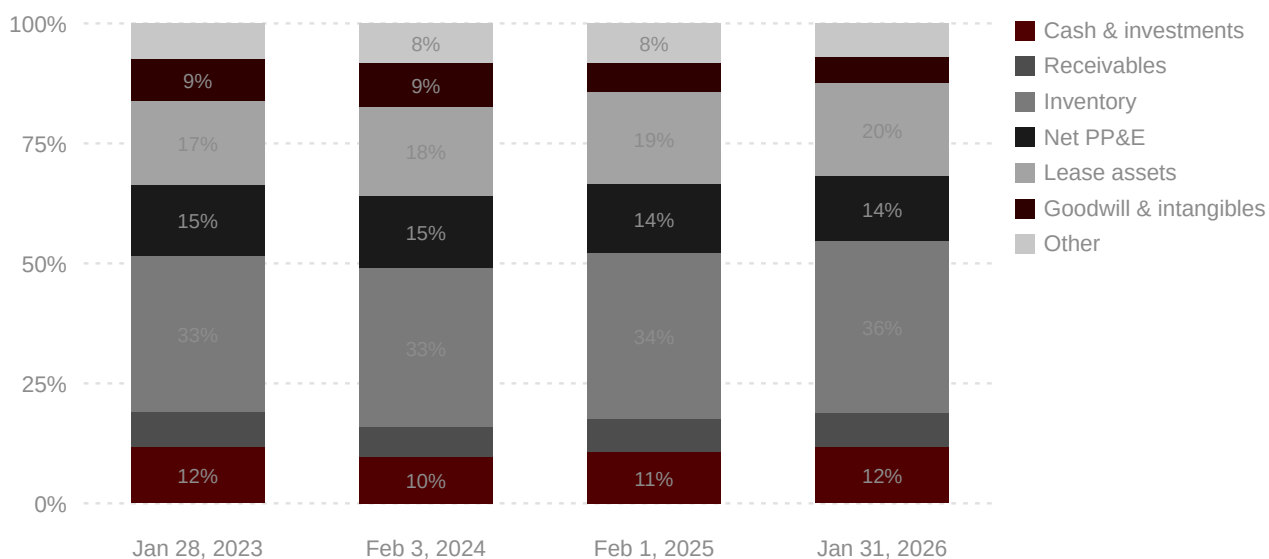
Percent of revenue. Source: Form 10-K, fiscal 2025 (year ended 31 January 2026).

ROA DECOMPOSITION — MARGIN VERSUS PRODUCTIVITY



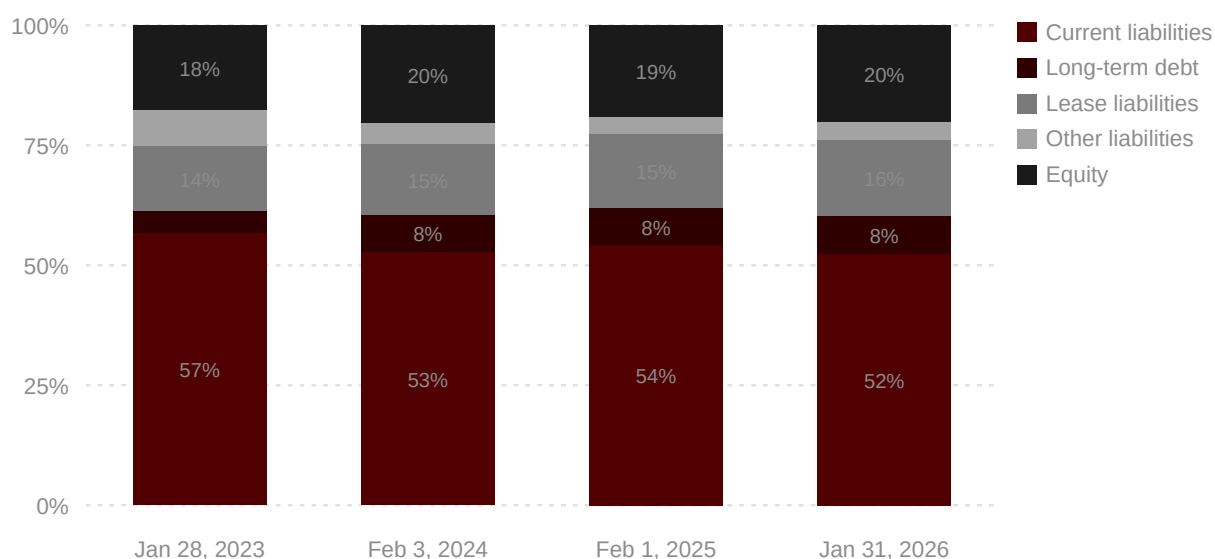
Profit margin (%), left scale shown) against asset turnover (x, scaled $\times 10$ for display). Source: Form 10-K, fiscal 2025 (year ended 31 January 2026).

ASSET COMPOSITION



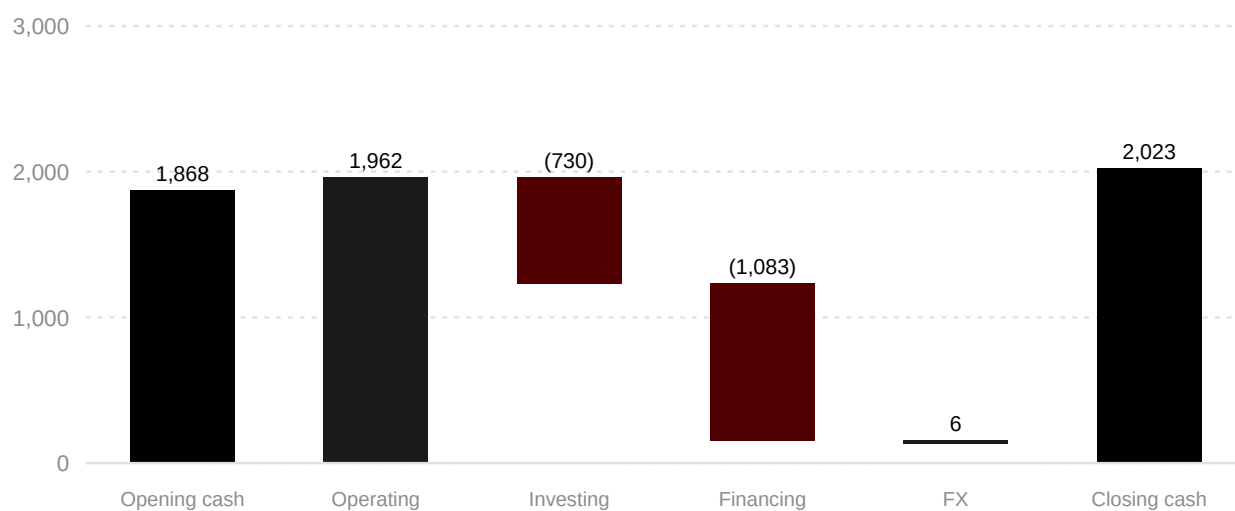
Percent of total assets. Source: Form 10-K, fiscal 2025 (year ended 31 January 2026).

CAPITAL STRUCTURE



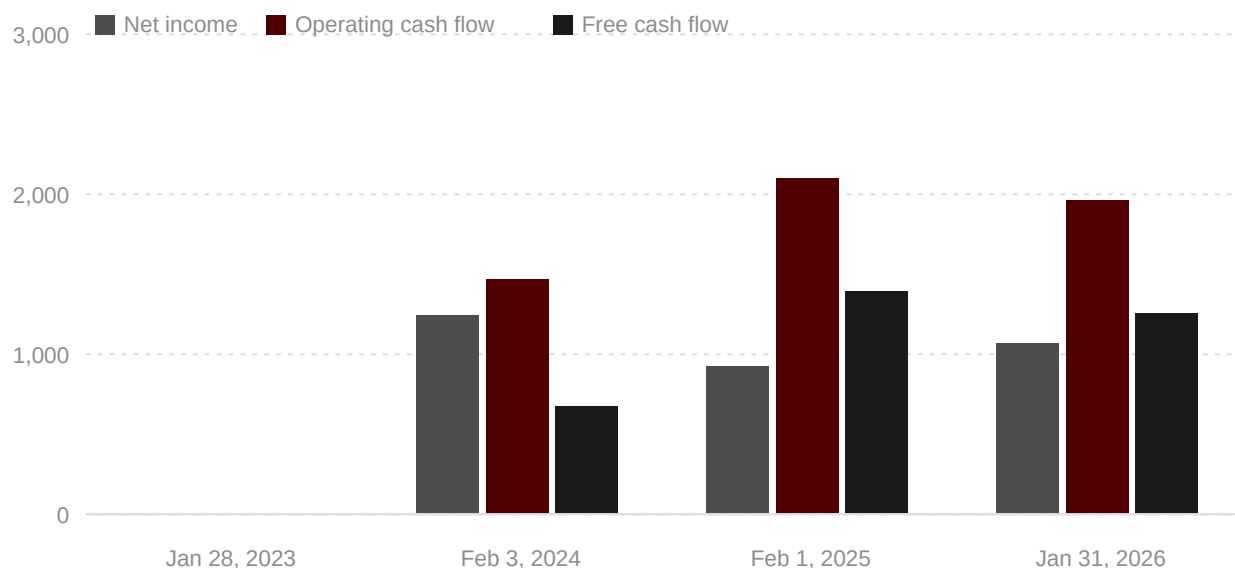
Percent of total liabilities and equity. Source: Form 10-K, fiscal 2025 (year ended 31 January 2026).

CASH FLOW BRIDGE — MOST RECENT PERIOD



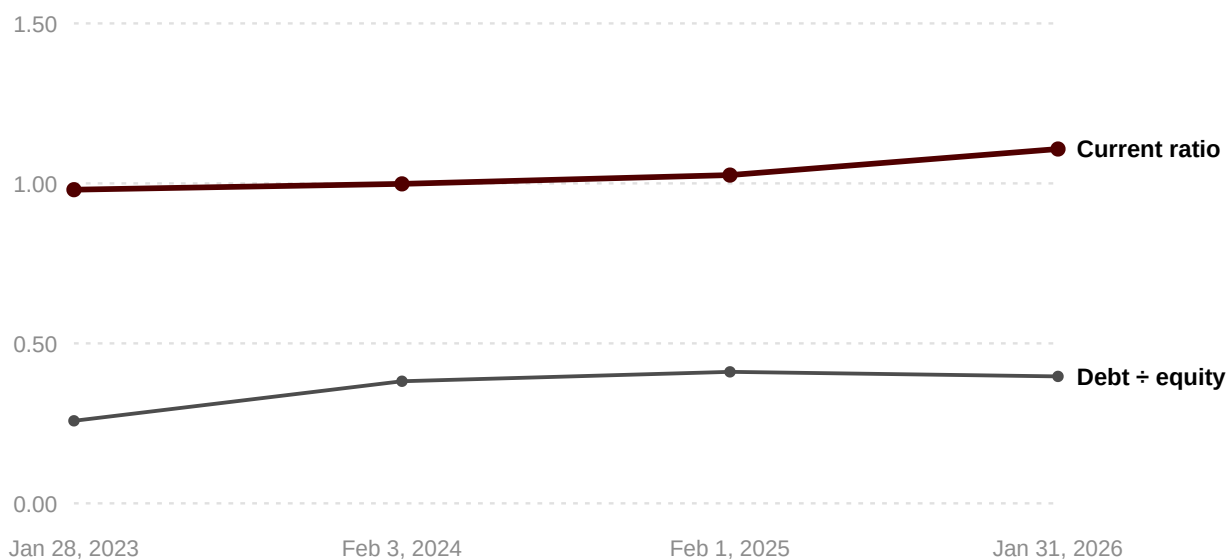
Figures in \$ millions, Jan 31, 2026. Source: Form 10-K, fiscal 2025 (year ended 31 January 2026).

OPERATING CASH FLOW VERSUS NET INCOME



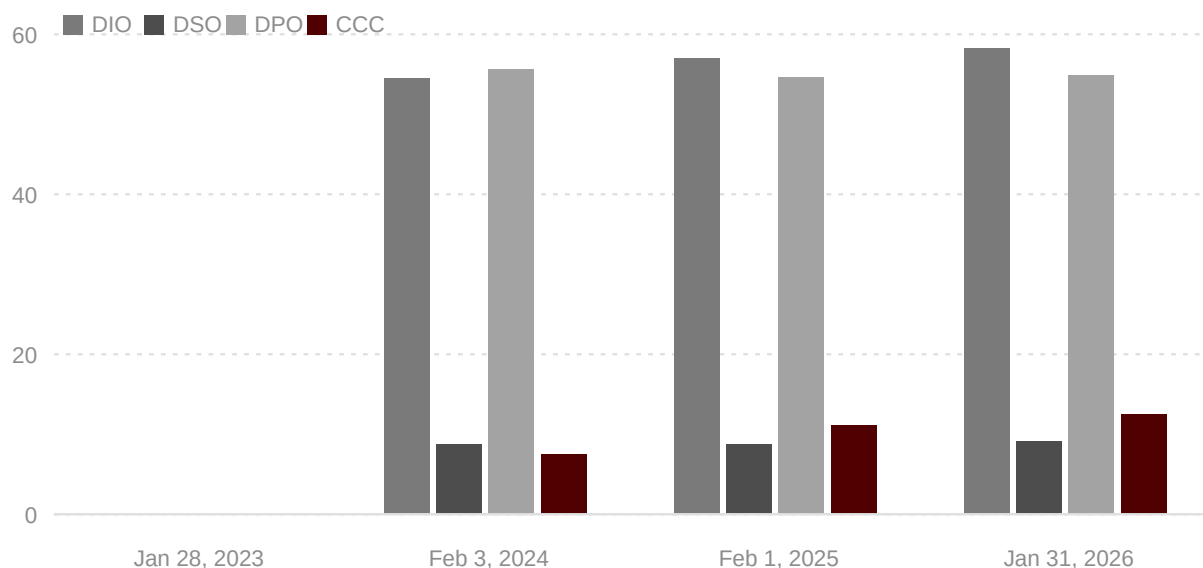
Figures in \$ millions. A persistent gap is a quality-of-earnings signal. Source: Form 10-K, fiscal 2025 (year ended 31 January 2026).

LIQUIDITY AND LEVERAGE



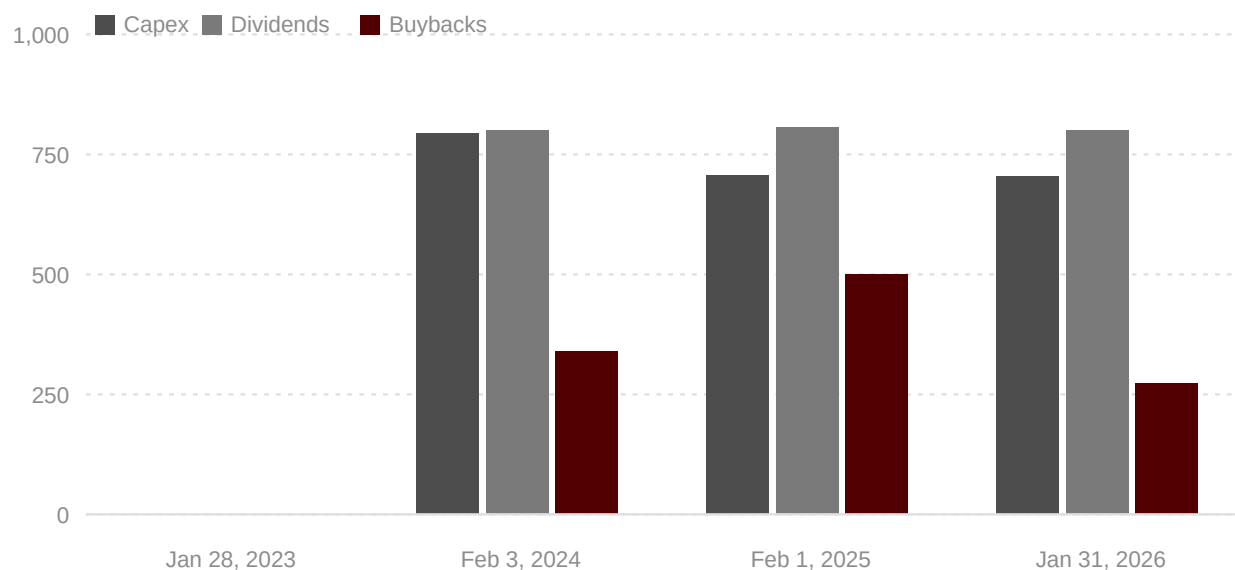
Current ratio (x) and debt-to-equity (x). Source: Form 10-K, fiscal 2025 (year ended 31 January 2026).

WORKING CAPITAL CYCLE



Days. Cash conversion cycle = DIO + DSO – DPO. Source: Form 10-K, fiscal 2025 (year ended 31 January 2026).

CAPITAL DEPLOYMENT



Figures in \$ millions, shown as absolute amounts. Source: Form 10-K, fiscal 2025 (year ended 31 January 2026).

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 1.84× net income.

Capital expenditure is below depreciation

Capex is 0.85× depreciation. Sustained under-investment flatters near-term cash flow and defers the cost.

Goodwill was written down

Goodwill fell from 908 to 790. An impairment is an admission that an acquisition did not deliver — read it as evidence about capital allocation.

Analyst commentary

PROFITABILITY AND MARGIN

Gross margin has been remarkably stable at around 22.5% across all three years, which for a consumer-electronics retailer is the single most encouraging fact in the statements — it says pricing has held in a category where it usually does not. The volatility sits below the gross-margin line: goodwill impairment of \$475m in fiscal 2024 and \$171m in fiscal 2025, together with restructuring charges, account for almost the whole of the swing in operating income. Adjusting for both, underlying operating margin is materially steadier than the reported line suggests, and the reported line understates the operating performance in exactly the years management would most like it understated.

RETURNS

The DuPont decomposition is decisive. Asset turnover has been essentially constant at roughly 2.8×, which means productivity is not the story. Profit margin is what moved, and it moved because of impairment and restructuring rather than because of trading. Return on assets therefore recovers in the most recent year without regaining its earlier level. Note also that average total assets have fallen every year — part of the improvement in ROA is the asset base shrinking, not the earnings growing, and a return that improves because the denominator is contracting is not the same achievement as one that improves because the numerator is.

BALANCE SHEET AND LIQUIDITY

Working capital is thin — a current ratio of roughly 1.1× — and the shape of it matters more than the level. Accounts payable of \$4.7bn sit against inventory of \$5.2bn, so suppliers are financing the greater part of the stock the business holds. In fast-turning retail that is a structural advantage rather than a warning, but it is an advantage that reverses violently if volumes fall, because payables unwind faster than inventory clears. Goodwill has fallen from \$1,383m to \$790m through two impairments; what remains is 5% of assets and no longer a material impairment exposure. Reported debt of about \$1.2bn understates the true obligation — operating lease liabilities of roughly \$2.9bn are debt in substance, and the leverage picture should be read on that basis.

CASH GENERATION AND CAPITAL ALLOCATION

Operating cash flow has exceeded net income in every period, which is the quality-of-earnings signal one wants to see, and is largely explained by depreciation running ahead of capital expenditure. Free cash flow comfortably covers the dividend. The concern is directional rather than immediate: capital expenditure has been below depreciation for three consecutive years. That flatters present cash flow at the cost of a store estate that is quietly ageing, and the bill arrives later.

BINDING CONSTRAINT — CANDIDATES

Candidate 1 — Demand, not capability. Revenue is flat across three years while margin holds, which is the signature of a category that has stopped growing rather than an operator that is failing. Disconfirming evidence would be category data showing the market growing while this entity does not.

Candidate 2 — Capital allocation. Two goodwill impairments in three years is an admission that acquired growth did not deliver. Disconfirming evidence would be impairments driven by discount-rate movements rather than by underperformance against the original acquisition case.

Candidate 3 — Asset productivity in the store estate. Capex below depreciation for three years, with a flat revenue line, suggests the estate is being harvested. Disconfirming evidence would be sales-per-square-foot holding steady on a shrinking footprint.

OPEN QUESTIONS FOR MANAGEMENT

What is the category growth rate, and what has happened to share within it?

What was the original investment case for the impaired acquisitions, and what specifically failed?

What is the store estate replacement cycle, and what is the deferred maintenance position?

How much of the gross-margin stability is mix — services and retail media — rather than merchandise pricing?

What happens to the payables position if unit volumes fall ten percent?

LIMITATIONS AND SCOPE

This analysis works from published consolidated statements only. It has no segment detail, no store-level economics, no product-category profitability and no customer data, so it can identify where the numbers point but cannot establish why. Vendor allowances — the auditor's critical audit matter — materially affect reported gross margin and cannot be tested from outside. Three years of income statement data is a short series for distinguishing trend from cycle.

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 declined 4.1% across the period

Separate price from volume before deciding what this means.

The change in return on assets is driven by margin

Profit margin moved 14.9% and asset turnover 1.4%. 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 1.84× net income. The reported profit is supported by cash, which is the first test any set of accounts has to pass.

Revenue can fall 14.8% before operating income turns negative

Break-even revenue of 35,513 against actual revenue of 41,691. That is thin cover, and it makes the cost base the first thing to examine.

Working capital absorbs 2.0% of revenue

At the current ratio, every additional 100 of revenue needs roughly 2.0 of funding behind it. Growth has a cash cost in this business, and the plan has to carry it.

Free cash flow of 1,258 after capital expenditure

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

The asset base is being consumed faster than it is replaced

Capital expenditure of 704 against depreciation of 831. Present cash flow is flattered by 127 a year, and the deferral compounds.

BREAK-EVEN AND OPERATING LEVERAGE

CONTRIBUTION RATE

22.5%

gross margin as proxy

BREAK-EVEN REVENUE

35,513

\$ millions

MARGIN OF SAFETY

14.8%

revenue above break-even

OPERATING LEVERAGE

6.75×

× 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.

The position, in summary

The position is more stable than the reported numbers suggest, and less comfortable than the cash flow suggests.

Three years of flat revenue with a gross margin that has barely moved is not the signature of a business losing a price war. It is the signature of a category that has stopped growing. The volatility all sits below the gross-margin line — two goodwill impairments and restructuring charges — and stripping those out leaves an operating performance considerably steadier than the reported line implies. The recovery in return on assets in the most recent year is therefore real but partly mechanical: asset turnover has been constant at roughly 2.8× throughout, so productivity explains none of it, and the asset base has shrunk every year, which flatters the denominator.

What is genuinely strong is cash. Operating cash flow has exceeded net income in every period and covers capital expenditure roughly three times over. What is quietly weakening is the asset base behind it: capital expenditure has run below depreciation for three consecutive years, deferring around \$127m a year. Present cash flow is being flattered by an amount that will eventually be spent regardless, and the deferral compounds.

Ranked by arithmetic rather than preference, the largest levers are gross margin (100 bps is worth \$417m of operating income), operating expense reduction (1% is worth \$79m) and working capital (each day of inventory is \$89m of cash). The ordering says where the money is. It does not say which of these this management team can reach, and that is usually the binding question.

What each lever is worth

Each line answers a single question: if this one thing moved, what would it be worth? Sized on Jan 31, 2026, 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	417	317	—
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%	94	71	—
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%	76	58	—
Total operating expense Applied across the whole fixed base rather than SG&A alone.	−1%	80	61	—
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	—	—	89
Days payable (DPO) Supplier-funded. Cheap until it is not — extending terms transfers cost to the supplier and eventually returns as price.	+1 day	—	—	89
Days sales outstanding (DSO) One-off cash release from faster collection.	−1 day	—	—	114
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 6.40×	—	—	181
CAPITAL				
Debt reduction Interest saved at the implied average rate of 4.0%. Modest in isolation; it also buys covenant headroom, which does not show up in this column.	−10% of debt	5	4	—
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	—
REINVESTMENT				
Capex to depreciation parity A cost, not a saving — shown for completeness. This is the annual reinvestment currently being deferred, and the amount by which present free cash flow is flattered.	close the gap	—	—	(127)

Figures in \$ millions. After-tax column applies the effective rate of 24.0%. 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 9,373 \$ millions. 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%	(1,668)	(1,860)	(2,053)	(2,246)	(2,438)	(2,823)
Price -2.0%	(834)	(1,047)	(1,261)	(1,474)	(1,688)	(2,115)
Price unchanged	0	(234)	(469)	(703)	(937)	(1,406)
Price +2.0%	+834	+579	+323	+68	(187)	(697)
Price +4.0%	+1,668	+1,392	+1,116	+840	+564	+12
Price +6.0%	+2,501	+2,205	+1,908	+1,611	+1,314	+720
Price +8.0%	+3,335	+3,018	+2,700	+2,382	+2,064	+1,429

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
Decompose gross margin into price, mix and vendor allowances	Gross margin has held at 22.5%, but the analysis cannot see whether that is merchandise pricing or a growing services and retail-media mix. The two have entirely different durability.	100 bps ≈ \$417m of operating income	Merchandising	Medium
Reconcile the distribution policy to sustainable free cash flow	Dividends and buybacks absorb the greater part of free cash flow while capital expenditure runs below depreciation. Distributions are being maintained partly by deferring reinvestment.	Frees capacity for the estate programme below	Finance	Low
Hold inventory growth below revenue growth	Inventory grew 2.9% against revenue growth of 0.4%. The gap is small but has been in the same direction for two years, and it ends in markdowns.	≈ \$89m per day of inventory released	Supply chain	Medium

NEXT — THIS YEAR

ACTION	WHY	EXPECTED IMPACT	OWNER	EFFORT
Set an explicit store-estate reinvestment policy against a stated asset life	Capex has run below depreciation for three consecutive years, deferring roughly \$127m a year. Deferral is a decision even when nobody takes it as one, and it compounds.	Removes a compounding claim on future cash flow	Property / Finance	High
Run a targeted price test where elasticity is lowest	The sensitivity grid shows a 2% price rise survives a 2.5% volume loss. Test it in categories with the weakest substitute set rather than across the range.	≈ \$600m of gross profit at +2% / -2.5%	Commercial	High
Quantify the lease-adjusted leverage position and set a target	Reported debt of \$1.2bn understates a \$2.9bn operating lease obligation. The capital structure looks conservative on the reported measure and merely adequate on the economic one.	Corrects the basis on which capital decisions are being taken	Finance	Medium

LATER — CONTINGENT

ACTION	WHY	EXPECTED IMPACT	OWNER	EFFORT
Post-mortem the impaired acquisitions before authorising another	\$593m of goodwill written off across two years. An impairment is evidence about the acquisition process, not only about the asset acquired.	Improves the quality of future capital allocation	Strategy	Medium
Obtain segment, category and store-level profitability	Consolidated statements establish that performance changed; they cannot establish where. An 80/20 view of categories, customers and locations is the next evidence required.	Converts a diagnosis into a target	Fenwick	Medium

WHAT WOULD CHANGE THIS CONCLUSION

The reading above rests on consolidated statements alone, and two pieces of evidence would materially change it.

First, category growth. If the market grew while this business did not, the constraint is share and therefore execution, and the recommendations reorder around commercial capability rather than cost. If the market was flat, the constraint is demand, and the correct response is to defend margin and harvest cash — very nearly the opposite programme.

Second, the composition of gross margin. If stability has been bought by an increasing services and retail-media mix masking merchandise margin erosion, then the most reassuring number in this analysis is the least reliable one, and the pricing test proposed above should be brought forward rather than scheduled.

Both are obtainable. Neither is expensive. Until they are in hand, the sequencing above should be treated as provisional.

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	$\frac{\text{Line item} \div \{\text{txt:Total assets}\} - \text{balance sheet}}{\text{Line item} \div \{\text{txt:Revenue}\} - \text{income statement}}$
WORKED	Gross profit as a share of revenue: $9,373 \div 41,691 = 22.5\%$
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	$\frac{(\text{Current period} - \text{Prior period}) \div \text{Prior period} }{}$
WORKED	Revenue: $(41,691 - 41,528) \div 41,528 = 0.4\%$
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	$(\text{Final} \div \text{First})^{(1 \div \text{number of intervals})} - 1$
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	$2.56\% \times 2.83\times = 7.26\% \text{ ROA}; \times 5.10\times \text{ Leverage} = 37.04\% \text{ ROE}$
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	$\text{Average balance} = (\text{Opening} + \text{Closing}) \div 2$
WORKED	Average total assets: $(14,782 + 14,670) \div 2 = 14,726$
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	$7,984 \div 22.5\% = 35,513$
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	$(41,691 - 35,513) \div 41,691 = 14.8\%$
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	$9,373 \div 1,389 = 6.75\times$
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: $1\% \times 41,691 = 417$ operating income; $\times (1 - 24.0\%) = 317$ 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: $32,318 \div 365 = 89$
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	New gross profit = Revenue × (1 + price change) × (1 + volume change) – Cost of sales × (1 + volume change)
WORKED	+2% price, –2.5% volume: 9,952 – 9,373 = 579
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: Public – listed · C corporation (entity-level tax) · Audited – US GAAP
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	Adjusted EBITDA = EBITDA + costs that would not exist under different ownership SDE = Adjusted EBITDA + the owner's base compensation
WORKED	2,220 + 0 = 2,220 adjusted EBITDA
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	Enterprise value = Chosen earnings basis × Multiple (low / base / high) Equity value = Enterprise value – Net debt
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	Total assets = Total liabilities + Total equity
WORKED	14,670 vs 14,670 – 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****22.5%**

FORMULA	Gross profit ÷ Revenue / net sales
WORKED	9,373 ÷ 41,691
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**3.3%**

FORMULA	Operating income ÷ Revenue / net sales
WORKED	1,389 ÷ 41,691
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**5.3%**

FORMULA	(Operating income + Depreciation and amortisation) ÷ Revenue / net sales
WORKED	(1,389 + 831) ÷ 41,691
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**3.4%**

FORMULA	Income before income taxes ÷ Revenue / net sales
WORKED	1,404 ÷ 41,691
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**2.6%**

FORMULA	Net income ÷ Revenue / net sales
WORKED	1,069 ÷ 41,691
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**24.0%****FORMULA**

Income tax expense ÷ Income before income taxes

WORKED

337 ÷ 1,404

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)****7.3%****FORMULA**

Net income ÷ Average total assets

WORKED

1,069 ÷ 14,726

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)**37.0%****FORMULA**

Net income ÷ Average total shareholders' equity

WORKED

1,069 ÷ 2,886

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**43.9%****FORMULA**

(Operating income × (1 – effective tax rate)) ÷ (Total debt + Total shareholders' equity – Cash and cash equivalents)

WORKED

(1,389 × (1 – effective tax rate)) ÷ (1,176 + 2,964 – 1,738)

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****1.11×****FORMULA**

Total current assets ÷ Total current liabilities

WORKED

8,504 ÷ 7,679

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**0.43×****FORMULA**

(Total current assets – Inventories – Prepaid expenses) ÷ Total current liabilities

WORKED

(8,504 – 5,230 – –) ÷ 7,679

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**0.23×****FORMULA** $(\text{Cash and cash equivalents} + \text{Short-term investments}) \div \text{Total current liabilities}$ **WORKED** $(1,738 + -) \div 7,679$ **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**825****FORMULA** $\text{Total current assets} - \text{Total current liabilities}$ **WORKED** $8,504 - 7,679$ **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**2.0%****FORMULA** $(\text{Total current assets} - \text{Total current liabilities}) \div \text{Revenue} / \text{net sales}$ **WORKED** $(8,504 - 7,679) \div 41,691$ **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)****2.83×****FORMULA** $\text{Revenue} / \text{net sales} \div \text{Average total assets}$ **WORKED** $41,691 \div 14,726$ **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)**20.30×****FORMULA** $\text{Revenue} / \text{net sales} \div \text{Average net property and equipment}$ **WORKED** $41,691 \div 2,054$ **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)**6.27×****FORMULA** $\text{Cost of sales} \div \text{Average inventories}$ **WORKED** $32,318 \div 5,158$ **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)**58d**

FORMULA	$365 \div (\text{Cost of sales} \div \text{Average inventories})$
WORKED	$365 \div (32,318 \div 5,158)$
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)**9d**

FORMULA	$365 \div (\text{Revenue} / \text{net sales} \div \text{Average receivables, net})$
WORKED	$365 \div (41,691 \div 1,044)$
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)**55d**

FORMULA	$365 \div (\text{Cost of sales} \div \text{Average accounts payable})$
WORKED	$365 \div (32,318 \div 4,863)$
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**12d**

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****3.95x**

FORMULA	$\text{Total liabilities} \div \text{Total shareholders' equity}$
WORKED	$11,706 \div 2,964$
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**0.40x**

FORMULA	$(\text{Short-term and current portion of long-term debt} + \text{Long-term debt}) \div \text{Total shareholders' equity}$
WORKED	$(11 + 1,165) \div 2,964$
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**8.0%**

FORMULA

 $(\text{Short-term and current portion of long-term debt} + \text{Long-term debt}) \div \text{Total assets}$

WORKED

 $(11 + 1,165) \div 14,670$

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)**5.10×**

FORMULA

 $\text{Average total assets} \div \text{Average total shareholders' equity}$

WORKED

 $14,726 \div 2,886$

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**(562)**

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

 $(11 + 1,165) - 1,738 - -$

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**-0.25×**

FORMULA

 $\text{Net debt} \div \text{EBITDA}$

WORKED

 $(562) \div 2,220$

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**1.86×**

FORMULA

 $(\text{Total debt} + \text{Current portion of lease liabilities} + \text{Long-term lease liabilities}) \div \text{EBITDA}$

WORKED

 $(1,176 + 623 + 2,334) \div 2,220$

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)**29.55×**

FORMULA

 $\text{Operating income} \div \text{Interest expense}$

WORKED

 $1,389 \div 47$

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

4.7%

FORMULA

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

WORKED

$$1,962 \div 41,691$$

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

1,258

FORMULA

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

WORKED

$$1,962 - |(704)|$$

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

3.0%

FORMULA

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

WORKED

$$(1,962 - |(704)|) \div 41,691$$

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)

1.84x

FORMULA

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

WORKED

$$1,962 \div 1,069$$

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

1.7%

FORMULA

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

WORKED

$$|(704)| \div 41,691$$

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

0.85x

FORMULA

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

WORKED

$$|(704)| \div 831$$

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**74.9%**FORMULA $| \text{Dividends paid} | \div \text{Net income}$ WORKED $| (801) | \div 1,069$

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**0.85×**FORMULA $(| \text{Dividends paid} | + | \text{Repurchases of common stock} |) \div \text{Free cash flow}$ WORKED $(| (801) | + | (273) |) \div 1,258$

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****2,220**FORMULA $\text{EBITDA} + \text{Total normalisations}$ WORKED $2,220 + \text{Total normalisations}$

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**5.3%**FORMULA $\text{Adjusted EBITDA} \div \text{Revenue / net sales}$ WORKED $\text{Adjusted EBITDA} \div 41,691$

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)**2,220**FORMULA $\text{EBITDA} + \text{Total normalisations} + \text{Owner base compensation}$ WORKED $2,220 + \text{Total normalisations} + \text{Owner base compensation}$

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**—**FORMULA $\text{Total normalisations} \div \text{EBITDA}$ WORKED $\text{Total normalisations} \div 2,220$

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

490,482

FORMULA	Revenue / net sales ÷ Headcount
WORKED	41,691 ÷ 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

16,341

FORMULA	Operating income ÷ Headcount
WORKED	1,389 ÷ 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

14,637

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)

17,032

FORMULA	Market capitalisation + Total debt + Lease liabilities – Cash and cash equivalents – Short-term investments
WORKED	Market capitalisation + 1,176 + Lease liabilities – 1,738 – –
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

7.67×

FORMULA	Enterprise value ÷ EBITDA
WORKED	Enterprise value ÷ 2,220
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

7.67×

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**0.41×****FORMULA**

Enterprise value ÷ Revenue / net sales

WORKED

Enterprise value ÷ 41,691

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)**13.89×****FORMULA**

Share price ÷ Diluted earnings per share

WORKED

Share price ÷ 5

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**4.94×****FORMULA**

Market capitalisation ÷ Total shareholders' equity

WORKED

Market capitalisation ÷ 2,964

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**8.6%****FORMULA**

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

WORKED

(1,962 – |(704)|) ÷ 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**5.4%****FORMULA**

Dividends declared per share ÷ Share price

WORKED

4 ÷ 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**

—

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

—

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

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

FORMULA	Indicative enterprise value – Net debt
WORKED	Indicative enterprise value – (562)
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

FORMULA	(Stated price + Net debt) ÷ Chosen earnings basis
WORKED	(Stated price + (562)) ÷ 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****5.04**

FORMULA	Net income ÷ Weighted-average shares – diluted
WORKED	1,069 ÷ 212
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**13.97**

FORMULA	Total shareholders' equity ÷ Weighted-average shares – diluted
WORKED	2,964 ÷ 212
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**3.80**

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**5.93**

FORMULA	(Net cash from operating activities – [Capital expenditure]) ÷ Weighted-average shares – diluted
WORKED	(1,962 – (704)) ÷ 212
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 balance sheet figures	Form 10-K, consolidated balance sheets	p. 45	High	As reported; no adjustments
All income statement figures	Form 10-K, consolidated statements of earnings	p. 43	High	As reported
All cash flow figures	Form 10-K, consolidated statements of cash flows	p. 47	High	Impairment lines aggregated: goodwill impairment plus long-lived asset impairments
Deferred revenue	Form 10-K, consolidated balance sheets	p. 45	High	Modelled: deferred revenue plus unredeemed gift card liabilities, combined for presentation
EBITDA	Analyst model	—	Modelled	Operating income plus depreciation and amortisation from the cash flow statement
Debt including leases	Analyst model	—	Modelled	Reported debt plus current and non-current operating lease liabilities
Share prices, headcount and audit-report details	ILLUSTRATIVE — worked example only	—	Low	Not sourced from the filing. Placeholders so the valuation and intake sections demonstrate. Replace from the 10-K before any external use.

BASIS OF PREPARATION

Figures are stated in \$ millions. Fiscal year end: Last Saturday of January (52/53-week fiscal year). 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.

Prepared under The Aperture Method™ · Phase 02 Quantify · Aperture Analytics™ · Fenwick How · 16 August 2026