

ProfitPulse

Sample Company

Prepared: Dec 22, 2025

Financials as of: Dec 31, 2024
















Contents

LedgerScan	p. 2
Monthly Performance Dashboards	p. 3
Standardized Financial Statements	p. 21
Benchmark Analysis	p. 25
Capital Availability Analysis	p. 31
Valuation Analysis	p. 37

Disclaimer: ProfitPulse reflects financials as provided in the company's accounting system, and its accuracy depends on the accuracy and completeness of the data provided. A lack of proper and comprehensive accounting processes may impair the data and insights provided in this report.

OVERVIEW

LedgerScan

	Actual (Last 12 Mos)	Expected	
 Timeframe	36 mos	36 mos	
 Revenue vs. Prior Year	+9%	±50%	
 COGS	46%	10–80%	
 Operating Expenses	\$19,936,034		
 Non-Operating Expenses	\$433,802		
 Cash and Cash Equivalents	\$52,383		
 Accounts Receivable	37 days	10–90 days	
 Inventory	9 days	10–180 days	Inventory is outside of the expected range.
 Other Current Assets	\$655,853		
 Fixed Assets, Net	\$7,662,597		
 Other Non-Current Assets	\$508,267		
 Accounts Payable	30 days	10–60 days	
 Current Debt	\$2,368,004		
 Other Current Liabilities	\$3,758,172		
 Long-Term Liabilities	\$3,419,458		

Monthly Performance Dashboards

- Overview
- Manage Profit
- Manage Cash
- Manage Debt
- Manage Valuation

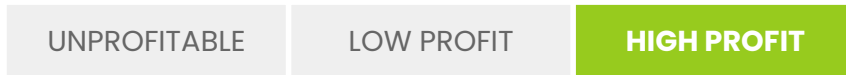
Prepared: Dec 22, 2025

Financials as of: Dec 31, 2024

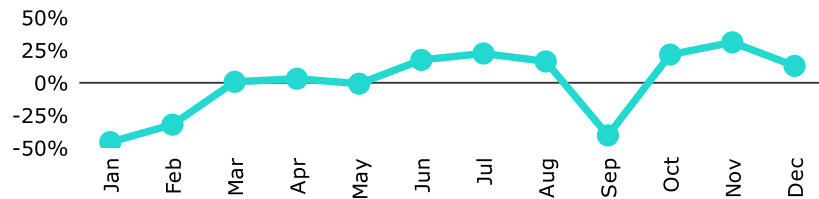
OVERVIEW

Executive Summary

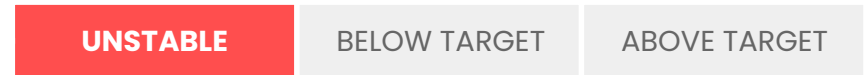
Profit



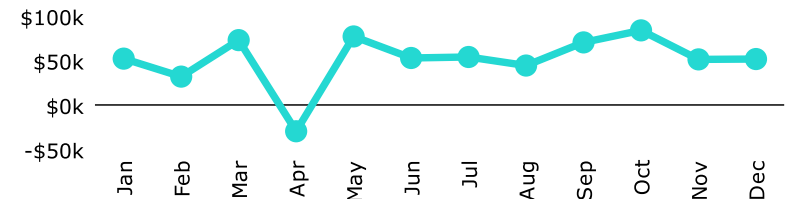
Profit margins for the last 12 months are above the industry average.



Cash



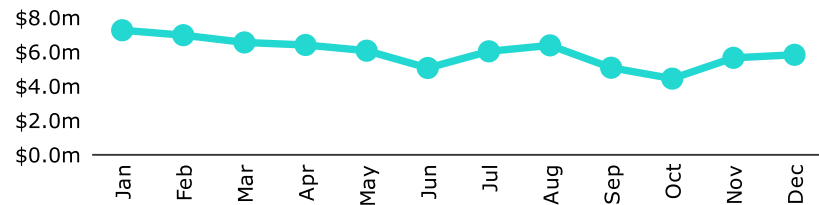
Existing cash only covers 0 days of expenses.



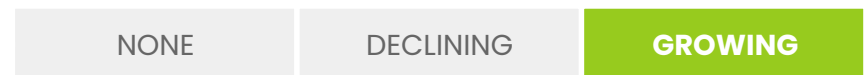
Debt



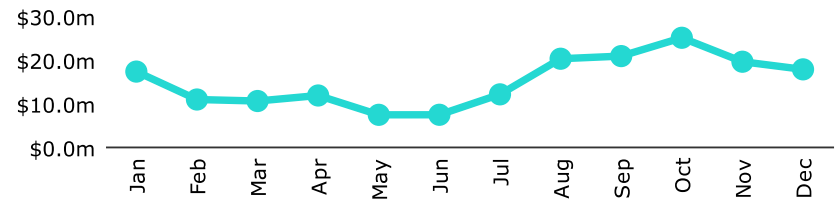
Debt levels are high relative to equity, but some additional capacity is available.



Valuation



Valuation has increased since one year ago.



OVERVIEW

Financial Performance Table

	DECEMBER 2024	VS. LAST MONTH	12-MO. AVERAGE	VS. LAST YEAR	12-MO. AVERAGE VS. INDUSTRY
Revenue	\$4.2m	↓	\$3.8m	↑	↑ Leading
Gross Margin	60.7%	↑	53.7%	↑	↑ Leading
Net Profit Margin	12.4%	↓	9.0%	↑	↑ Leading
Cash	\$52k	–	\$52k	–	– N/A
Working Capital	-\$1.8m	↑	-\$2.5m	↓	– N/A
Days Receivables	34 days	↑	37 days	↓	– N/A
Days Inventory	8 days	↑	9 days	↑	↓ Leading
Days Payables	26 days	↑	30 days	↑	↑ Leading
Debt Capacity	\$4.9m	↓	\$3.3m	↑	– N/A
Equity Value	\$18.0m	↓	\$15.3m	↑	– N/A

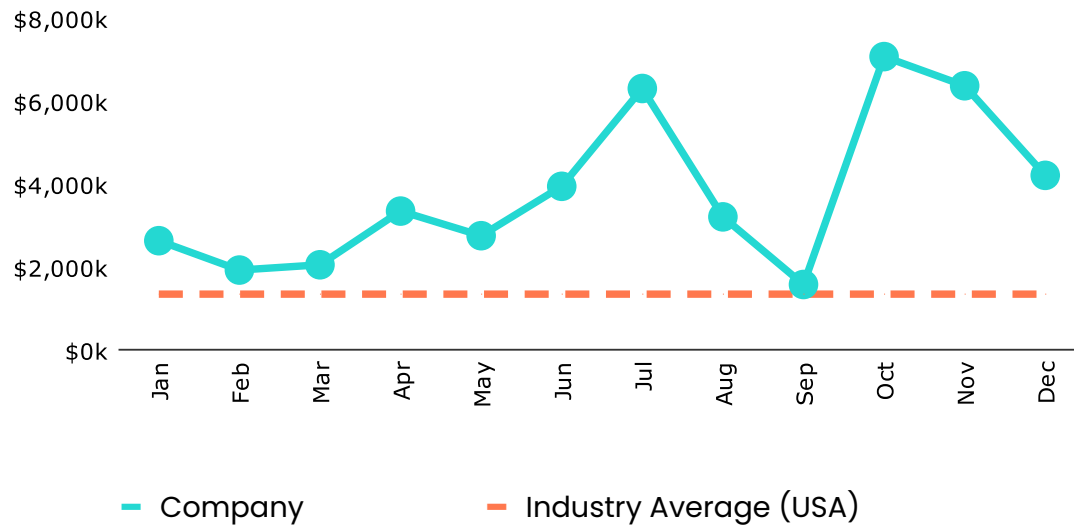
Revenue Declined This Month

\$4.2m

December Revenue

Top-Line Sales Income

↓ \$2,160,250 vs. Last Month



Why it Matters

- Revenue can drive profit and valuation
- Higher revenue can cover fixed costs consistently

Action Plan

- Prioritize growing profit, not just revenue
- Get a Profit360 to see the best ways to grow

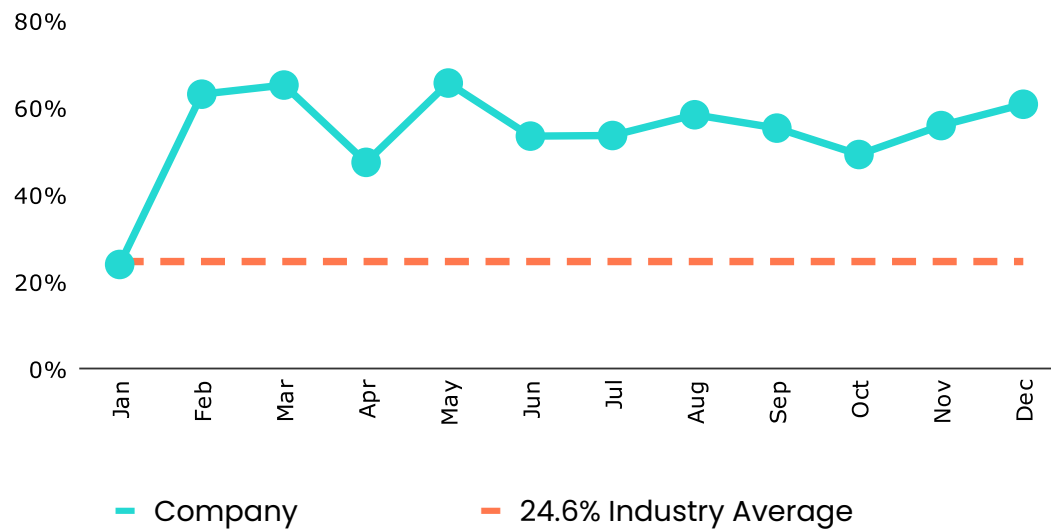
Gross Margin Increased This Month

60.7%

December Gross Margin

$(\text{Revenue} - \text{COGS}) \div \text{Revenue}$

↑ 4.9% vs. Last Month



Why it Matters

- Gross Margin shows how well COGS are managed
- High Gross Margin is usually easier to scale

Action Plan

- Keep detailed records of COGS for better reporting

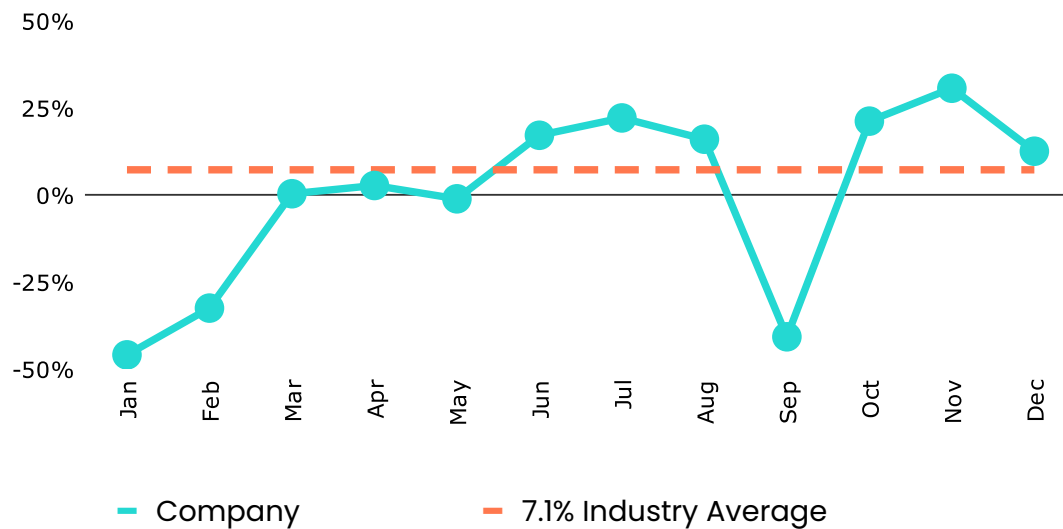
Net Profit Margin Declined This Month

12.4%

December Net Profit Margin

Net Profit ÷ Revenue

↓ 18.1% vs. Last Month



Why it Matters

- Profit drives cash and business value
- Profit is the purpose and goal of a business
- Business value would grow \$3.2m if Profit Margin matched the industry

Action Plan

- Prioritize growing profit, not just revenue
- Get a Profit360 for clear steps to increase profit



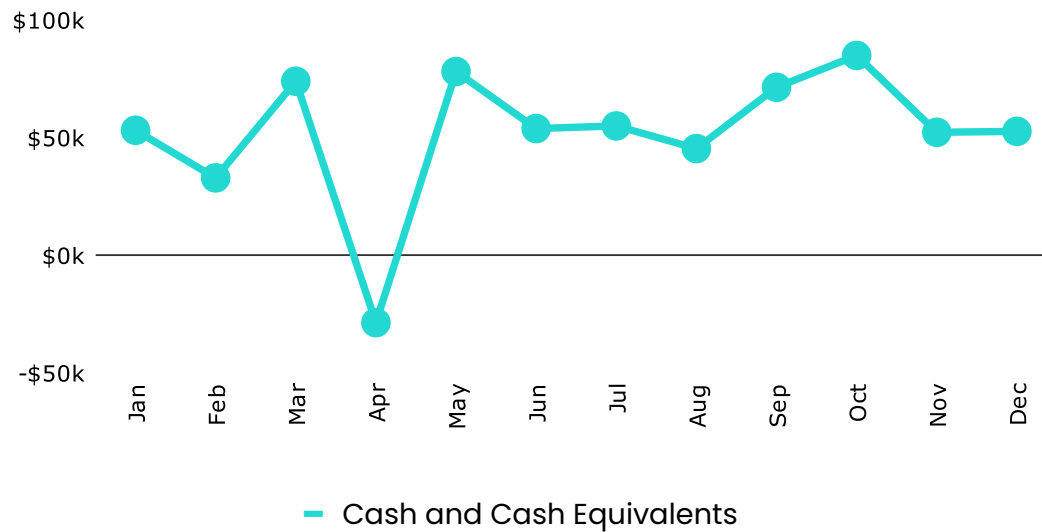
Cash Increased This Month

\$52k

December Cash Balance

Cash and Cash Equivalents from Accounting System

↑ \$387 vs. Last Month



Why it Matters

- Cash is needed to operate and grow

Action Plan

- The following pages show the level of cash needed



Cash Increase Breakdown

Cash Profit

Net Profit added cash +630,590

Working Capital

You collected more than you sold +152,076

You sold existing inventory +15,859

You sold other current assets +559,225

You paid down short-term obligations -1,241,519

Assets

You sold long-term assets +3,407

Financing

You paid down debt/equity -119,250

Net Change in Cash

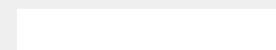
+387

Why it Matters

- Cash is needed to operate and grow

Action Plan

- The following pages show the level of cash needed



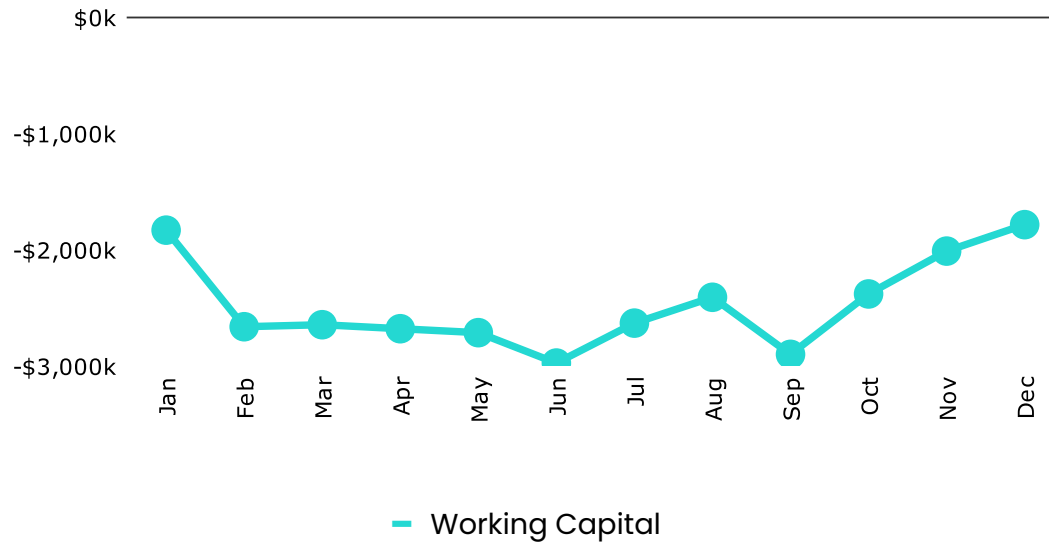
Working Capital Increased This Month

-\$1.8m

December Working Capital

Current Assets - Current Liabilities

↑ \$227,525 vs. Last Month



Why it Matters

- Measures ability to cover near-term obligations
- Excess working capital is needed to grow

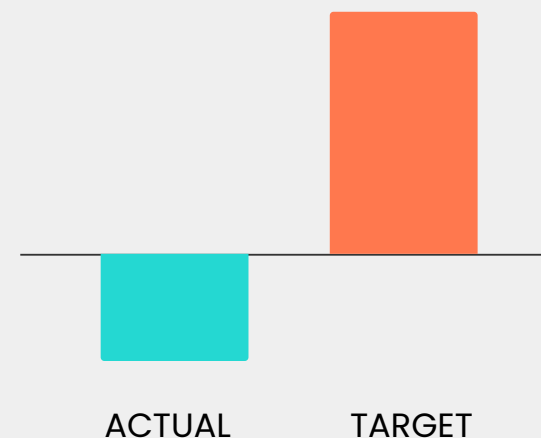
Action Plan

- Develop a healthy cash conversion cycle
- Increase profits for sustainable cashflow



You Have a Working Capital Deficit

Current Assets		\$5,731,394
Current Liabilities	-	\$7,518,943
<hr/>		
Actual Working Capital		-\$1,787,549
Daily Burn Rate (all expenses)		\$118,363
Days Sales Outstanding	x	34 days
<hr/>		
Target Working Capital		\$4,009,261
Working Capital Deficit		\$5,796,811



Why it Matters

- Working Capital is needed to sustain operations

Action Plan

- Use only excess cash to invest in growth or to pay bonuses and dividends
- Increase cash through a faster conversion cycle, increased profit, or raising capital (debt or equity)

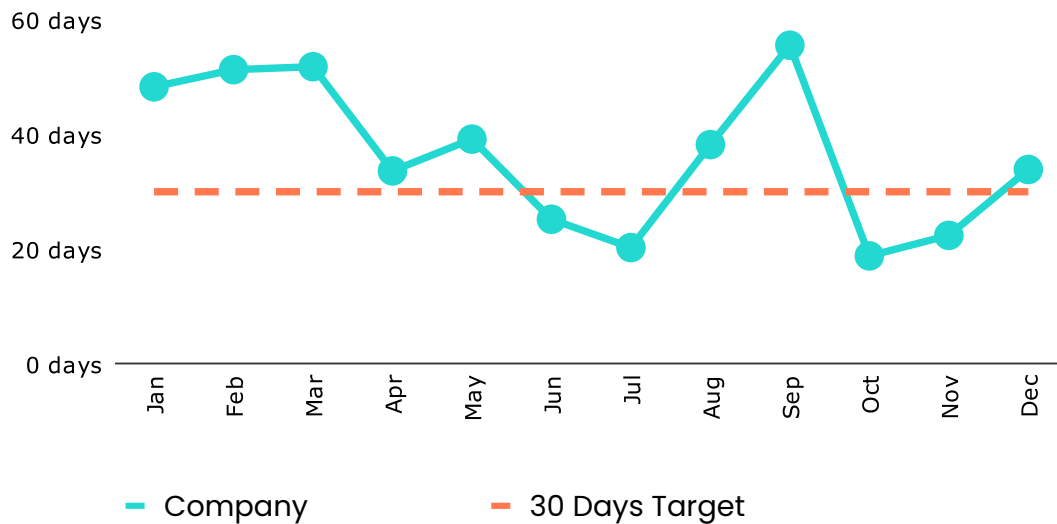
Collections Slowed This Month

34 days

Days to Collect Accounts Receivable

Accounts Receivable ÷ Average Daily Revenue

↑ 11 days vs. Last Month



Why it Matters

- Faster collection means more available cash
- Cash would increase \$115k at 30 days target vs. 31 days company average

Action Plan

- Require faster payment terms from customers
- Improve your collections follow-up process

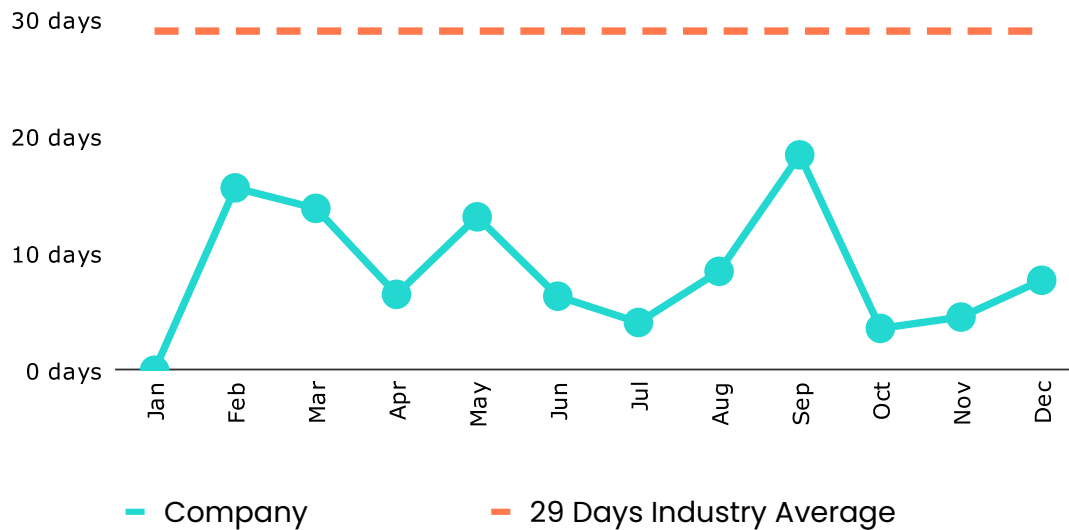
Inventory Turnover Slowed This Month

8 days

Days to Sell Inventory

Inventory ÷ Average Daily COGS

↑ 3 days vs. Last Month



Why it Matters

- Faster inventory turnover means more cash

Action Plan

- Track and manage inventory levels
- Focus on selling in areas with quicker turnover

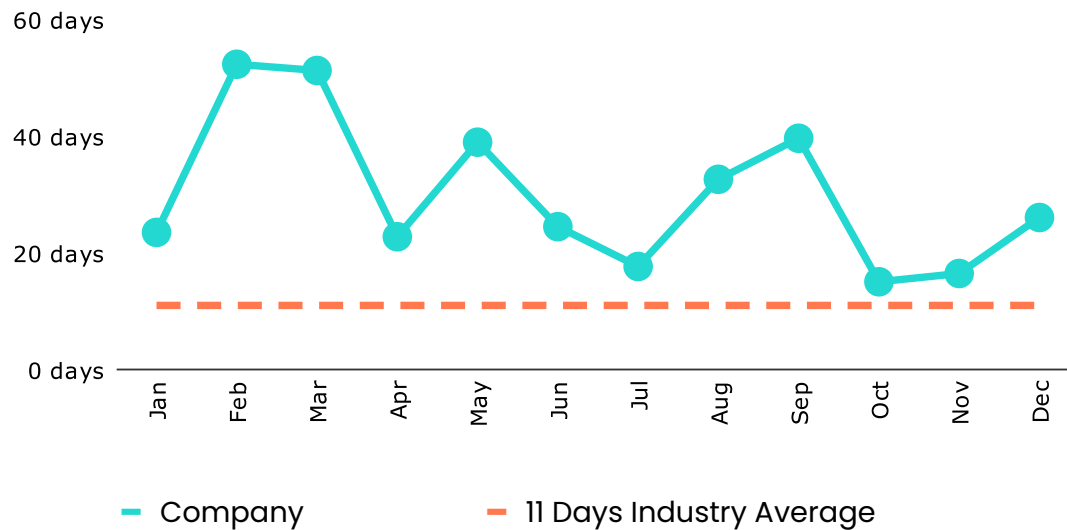
Days Payables Increased This Month

26 days

Days to Pay COGS

Accounts Payable ÷ Average Daily COGS

↑ 10 days vs. Last Month



Why it Matters

- Slower payment maximizes cash
- But expenses must be paid at some point

Action Plan

- Negotiate slower payment with vendors
- Retain enough cash to cover expenses

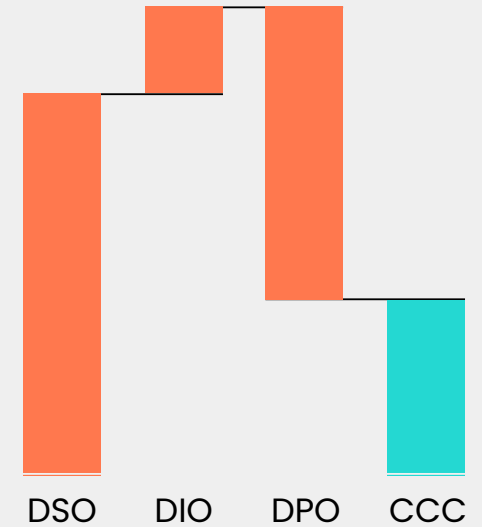
MANAGE CASH

Cash is Tied Up for 16 Days

The Cash Conversion Cycle (CCC) is the number of days the company takes to convert the cash spent on inventory back into cash from selling its product or service.

■ Days Sales Outstanding*		34 days
■ Days Inventory Outstanding*	+	8 days
■ Days Payables Outstanding*	-	26 days

■ **Cash Conversion Cycle** **16 days**



Why it Matters

- A shorter cycle means more cash is available

Action Plan

- Implement a rigorous collections process
- Optimize and reduce inventory

Cash is Below Target

■ Actual Cash Balance		\$52,383
Greater of CCC or 30 Days		30 days
Daily Burn Rate (all expenses)	x	\$118,363
<hr/>		
Target Cash Balance		\$3,550,879
■ Target Cash Balance	-	\$3,550,879
Cash Deficit		\$3,498,496



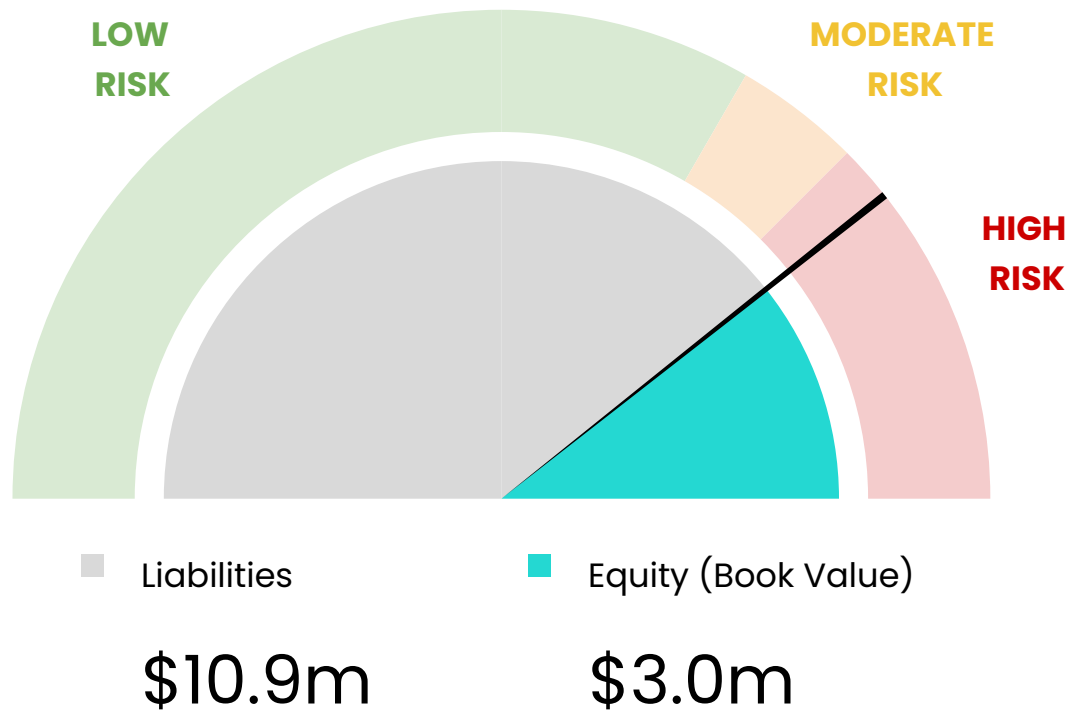
Why it Matters

- Cash should cover costs for at least one cycle

Action Plan

- Use only excess cash to
- invest in growth or to pay bonuses and dividends
- Increase cash through a faster conversion cycle, increased profit, or raising capital (debt or equity)

Debt-to-Equity is High-Risk at 3.7x



Why it Matters

- Liabilities are what is owed; equity is what is owned
- Both debt and equity can be sources of capital

Action Plan

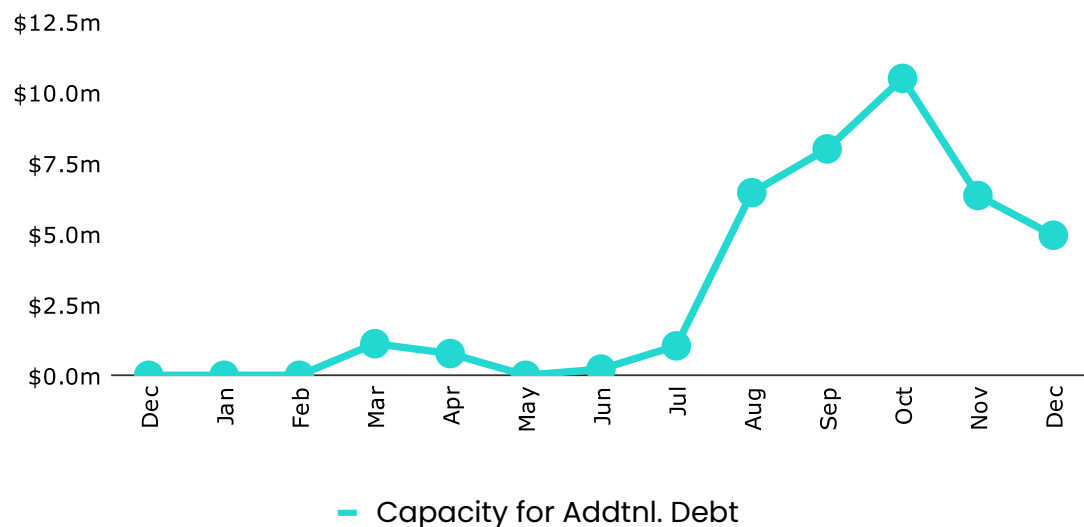
- Increase equity or pay down debt through additional profits

Capacity for Additional Debt

\$4.9m

Debt Capacity

↑\$4,946,858 vs. one year ago



Source of Debt Capacity

Cash Flow

Adjusted Debt Capacity

\$10,734,320

Subtract Existing Debt

\$5,787,461

Capacity for Addtnl. Debt

\$4,946,858

Why it Matters

- Financial health drives creditworthiness

Action Plan

- See the Capital Availability analysis for more details

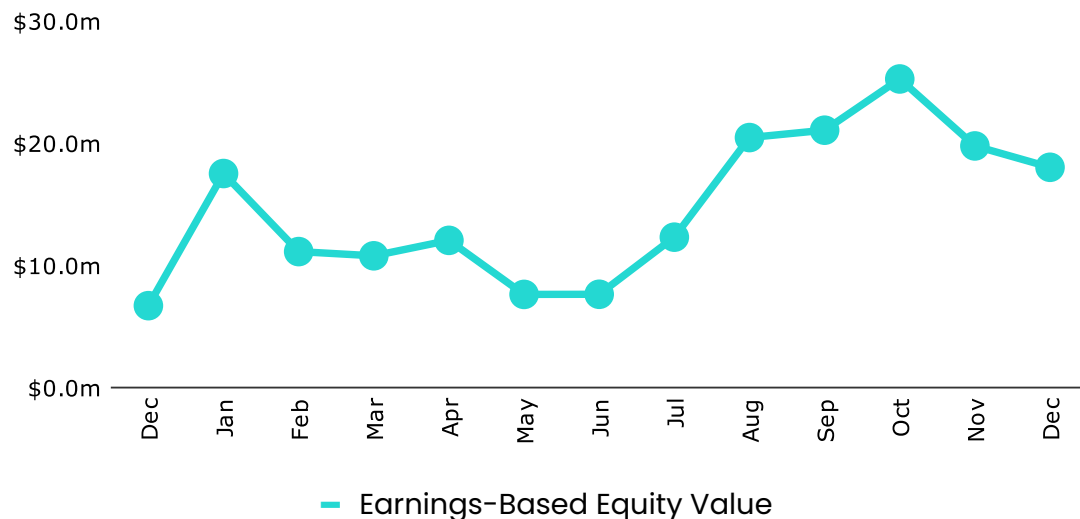


Valuation Overview

\$16.2m – \$19.8m

Earnings-Based Equity Value

↑ \$11.3m vs. one year ago



Adjusted EBITDA

\$5,470,010

x Adjusted Multiple

3.91x

+ Equity Adjustments

-\$3,419,458

= Equity Value Midpoint

\$17,985,000

Why it Matters

- Earnings drives equity value

Action Plan

- Get a Profit360 for clear steps to improve valuation



Standardized Financial Statements

- Monthly Financial One-Pager
- Annual Financial One-Pager
- Monthly Financial Ratio One-Pager
- AdvisorMetrix (Excel spreadsheet)

Prepared: Dec 22, 2025

Financials as of: Dec 31, 2024

Monthly Financial Statement One-Pager

	Trend	Oct 2024		Nov 2024		Dec 2024		
Income Statement	Revenue		7,084,190	100.0%	6,381,058	100.0%	4,220,808	100.0%
	COGS		3,599,428	50.8%	2,817,951	44.2%	1,657,073	39.3%
	Gross Profit		3,484,763	49.2%	3,563,108	55.8%	2,563,735	60.7%
	Overhead Expenses		1,949,427	27.5%	1,592,853	25.0%	2,012,169	47.7%
	Operating Income		1,535,336	21.7%	1,970,255	30.9%	551,566	13.1%
	Non-Operating Expenses		42,173	0.6%	22,364	0.4%	26,749	0.6%
	Net Income		1,493,163	21.1%	1,947,891	30.5%	524,817	12.4%
	EBITDA		1,615,846	22.8%	2,061,645	32.3%	642,649	15.2%
Balance Sheet	Cash		84,656	0.6%	51,996	0.4%	52,383	0.4%
	Accounts Receivable		4,300,874	29.5%	4,764,016	32.3%	4,611,940	33.2%
	Inventory		415,635	2.8%	427,077	2.9%	411,218	3.0%
	Other Current Assets		1,640,280	11.2%	1,215,077	8.2%	655,853	4.7%
	Total Current Assets		6,441,446	44.2%	6,458,167	43.8%	5,731,394	41.2%
	Net Fixed Assets		7,636,192	52.4%	7,750,675	52.6%	7,662,597	55.1%
	Other Long-Term Assets		506,129	3.5%	529,368	3.6%	508,267	3.7%
	Total Assets		14,583,767	100.0%	14,738,210	100.0%	13,902,258	100.0%
	Accounts Payable		1,747,013	12.0%	1,546,704	10.5%	1,392,767	10.0%
	Current Debt		756,538	5.2%	2,080,782	14.1%	2,368,004	17.0%
	Other Current Liabilities		6,321,615	43.3%	4,845,754	32.9%	3,758,172	27.0%
	Total Current Liabilities		8,825,166	60.5%	8,473,240	57.5%	7,518,943	54.1%
	Long-Term Debt		3,641,291	25.0%	3,529,534	23.9%	3,419,458	24.6%
	Total Liabilities		12,466,457	85.5%	12,002,774	81.4%	10,938,401	78.7%
Shareholders' Equity		2,117,309	14.5%	2,735,436	18.6%	2,963,857	21.3%	
Cash Flow	Cash from Operating Activities		1,618,698		326,013		116,230	
	Cash from Investing Activities		-195,861		-241,395		3,407	
	Cash from Financing Activities		-1,409,294		-117,278		-119,250	
	Net Change in Cash		13,542		-32,660		387	

Annual Financial Statement One-Pager

		Trend (\$)	Jan 2022 - Dec 2022		Jan 2023 - Dec 2023		Jan 2024 - Dec 2024	
Income Statement	Revenue		34,722,001	100.0%	41,750,025	100.0%	45,535,199	100.0%
	COGS		18,682,302	53.8%	24,513,820	58.7%	21,067,195	46.3%
	Gross Profit		16,039,699	46.2%	17,236,204	41.3%	24,468,004	53.7%
	Overhead Expenses		9,901,400	28.5%	14,782,787	35.4%	19,936,034	43.8%
	Operating Income		6,138,300	17.7%	2,453,417	5.9%	4,531,970	10.0%
	Non-Operating Expenses		169,040	0.5%	323,380	0.8%	433,802	1.0%
	Net Income		5,969,259	17.2%	2,130,038	5.1%	4,098,168	9.0%
	EBITDA		6,753,262	19.4%	3,167,032	7.6%	5,470,010	12.0%
Balance Sheet	Cash		64,280	0.6%	40,073	0.3%	52,383	0.4%
	Accounts Receivable		4,627,775	40.1%	5,162,852	36.4%	4,611,940	33.2%
	Inventory		0	0.0%	0	0.0%	411,218	3.0%
	Other Current Assets		706,872	6.1%	1,006,716	7.1%	655,853	4.7%
	Total Current Assets		5,398,926	46.8%	6,209,641	43.7%	5,731,394	41.2%
	Net Fixed Assets		5,933,052	51.4%	7,589,884	53.4%	7,662,597	55.1%
	Other Long-Term Assets		207,111	1.8%	402,883	2.8%	508,267	3.7%
	Total Assets		11,539,089	100.0%	14,202,409	100.0%	13,902,258	100.0%
	Accounts Payable		1,442,790	12.5%	1,638,436	11.5%	1,392,767	10.0%
	Current Debt		998,545	8.7%	1,957,417	13.8%	2,368,004	17.0%
	Other Current Liabilities		3,000,474	26.0%	3,975,244	28.0%	3,758,172	27.0%
	Total Current Liabilities		5,441,808	47.2%	7,571,097	53.3%	7,518,943	54.1%
	Long-Term Debt		3,873,369	33.6%	4,777,682	33.6%	3,419,458	24.6%
	Total Liabilities		9,315,177	80.7%	12,348,780	86.9%	10,938,401	78.7%
Shareholders' Equity		2,223,912	19.3%	1,853,629	13.1%	2,963,857	21.3%	
Cash Flow	Cash from Operating Activities		5,785,674		3,356,748		5,302,267	
	Cash from Investing Activities		-6,847,960		-2,743,821		-1,354,379	
	Cash from Financing Activities		1,126,566		-637,134		-3,935,578	
	Ending Cash Balance		64,280		-24,206		12,310	

Monthly Financial Ratio One-Pager

		Oct 2024	Nov 2024	Dec 2024
Short-term Liquidity	Current Ratio	0.7x	0.8x	0.8x
	Quick Ratio (Acid Test)	0.5x	0.6x	0.6x
	Accounts Receivable Turnover Ratio (Monthly)	1.6x	1.3x	0.9x
	Days Sales Outstanding (DSO)	19 days	22 days	34 days
	Inventory Turnover Ratio	8.7x	6.6x	4.0x
	Days Inventory Outstanding (DIO)	4 days	5 days	8 days
	Inventory to Net Working Capital Ratio	-0.2x	-0.2x	-0.2x
	Accounts Payable Turnover Ratio	2.1x	1.8x	1.2x
	Days Payable Outstanding (DPO)	15 days	16 days	26 days
	Days Working Capital	-10 days	-9 days	-13 days
	Cash Conversion Cycle	7 days	10 days	16 days
	Days Cash on Hand	1 days	1 days	1 days
Long-term Solvency	Debt-to-Assets Ratio (Debt Ratio)	0.3x	0.4x	0.4x
	Times Interest Earned (TIE) Ratio	79.5x	194.2x	44.5x
	Debt Service Coverage Ratio (estimated)	18.8x	38.2x	9.4x
	Fixed-Charge Coverage Ratio (estimated)	10.2x	17.7x	5.7x
	Assets-to-Equity Ratio	6.9x	5.4x	4.7x
	Liabilities-to-Assets Ratio	0.9x	0.8x	0.8x
	Debt-to-Equity Ratio	5.9x	4.4x	3.7x
	Long-Term Debt-to-Capitalization Ratio	0.6x	0.6x	0.5x
	Debt-to-EBITDA Ratio	2.7x	2.7x	9.0x
Profitability	Return on Assets	0.1x	0.1x	0.0x
	Return on Equity	0.7x	0.7x	0.2x
	Gross Margin	49.2%	55.8%	60.7%
	Operating Margin	21.7%	30.9%	13.1%
	Net Profit Margin	21.1%	30.5%	12.4%
	Total Asset Turnover Ratio	48.6%	43.3%	30.4%
	Fixed Asset Turnover Ratio	0.9x	0.8x	0.6x
	Current Asset Turnover Ratio	1.1x	1.0x	0.7x

Benchmark Analysis

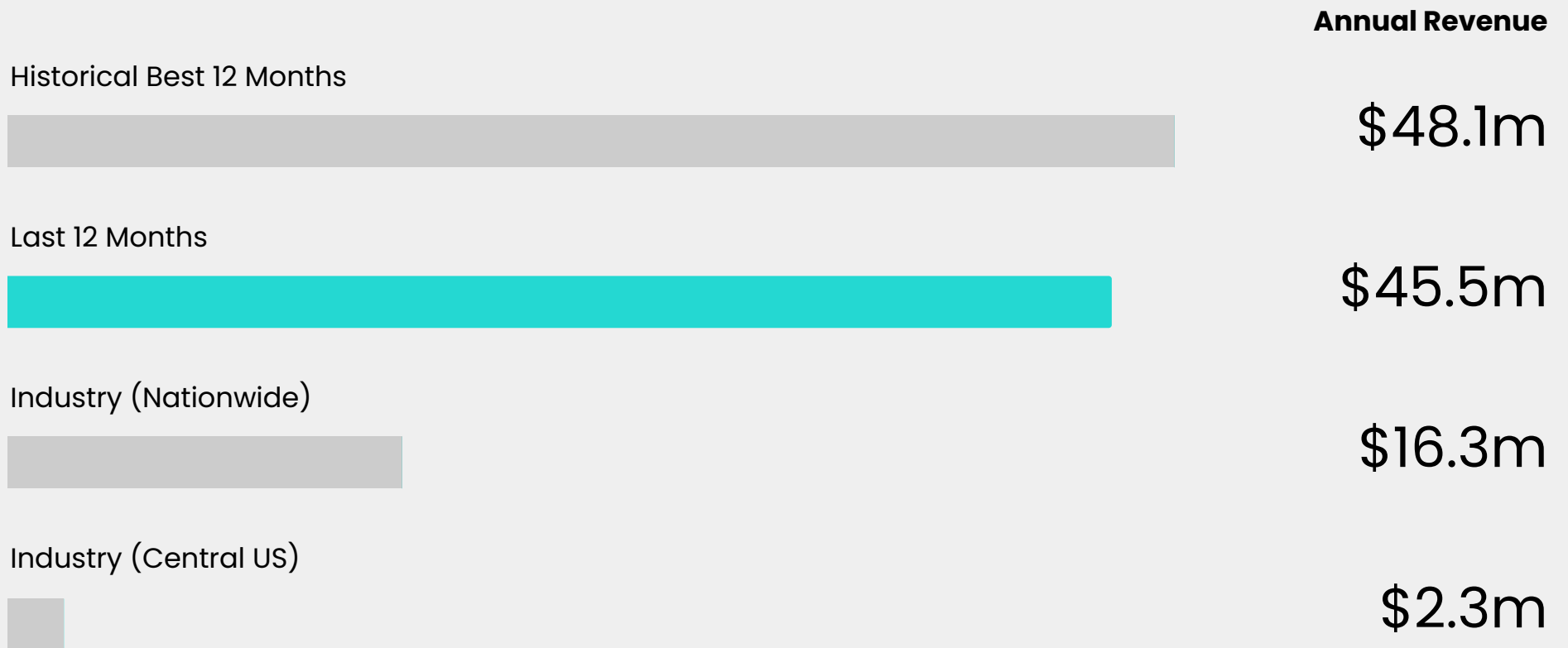
- Revenue
- Gross Margin
- Net Profit Margin
- Accounts Receivable
- Debt-to-Equity

Prepared: Dec 22, 2025

Financials as of: Dec 31, 2024

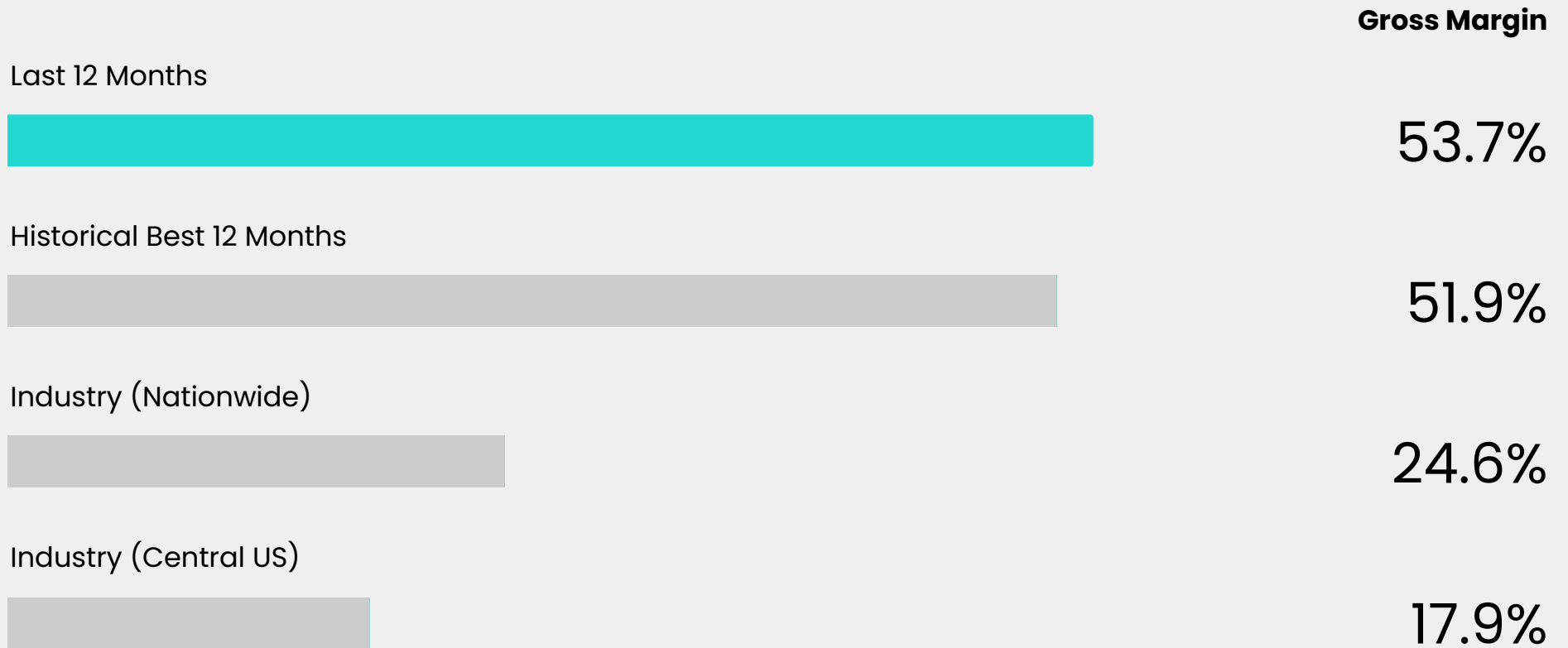
Revenue Benchmarks

Revenue is higher than average for firms in your industry



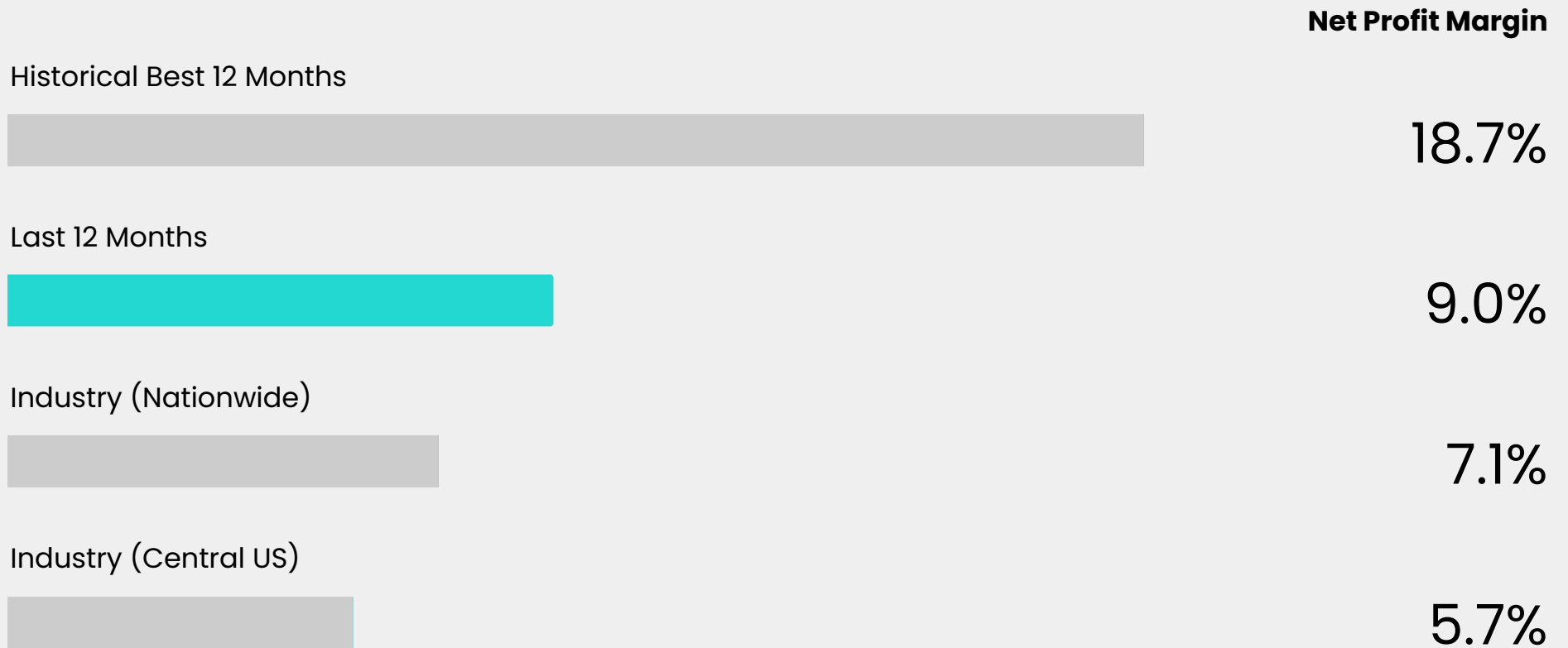
Gross Margin Benchmarks

Gross Margin is higher than average for firms in your industry



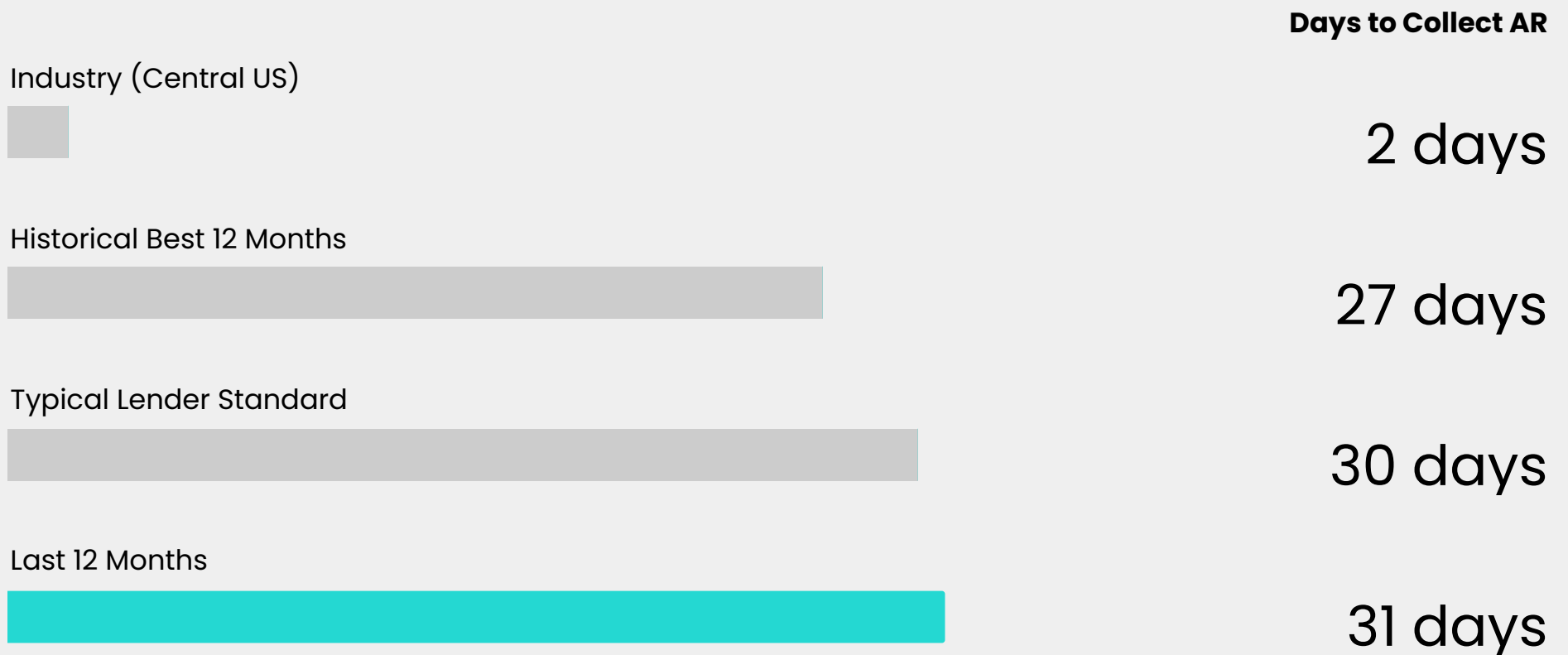
Net Profit Margin Benchmarks

Net Profit Margin is higher than average for firms in your industry



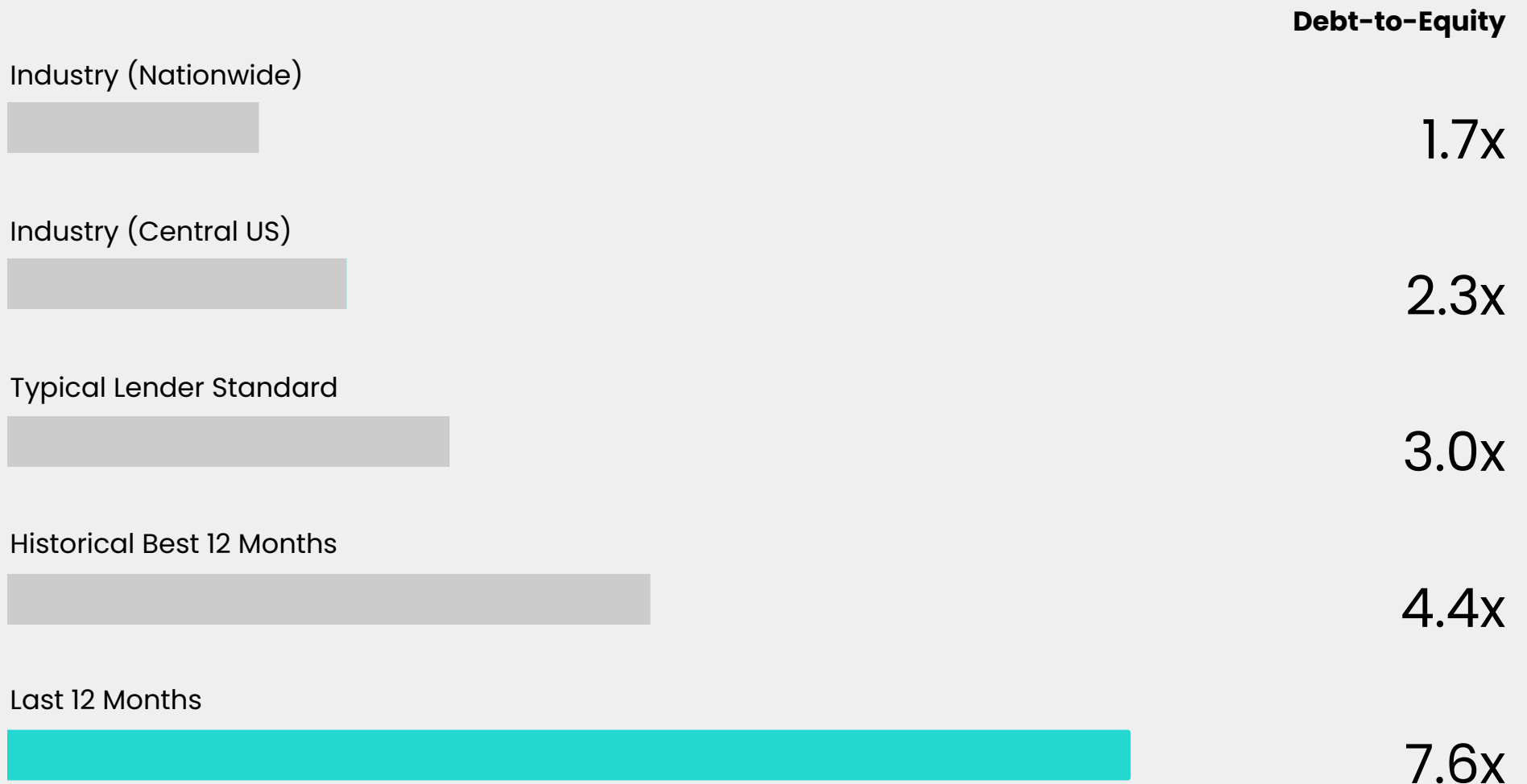
Accounts Receivable Benchmarks

Days to Collect AR (Days Sales Outstanding) does not meet the Typical Lender Standard.



Debt-to-Equity Ratio Benchmarks

Debt-to-Equity does not meet the Typical Lender Standard. Debt levels are higher than the industry average.



Capital Availability Analysis

- Altman Z" Score
- Capacity for Additional Debt

Prepared: Dec 22, 2025

Financials as of: Dec 31, 2024

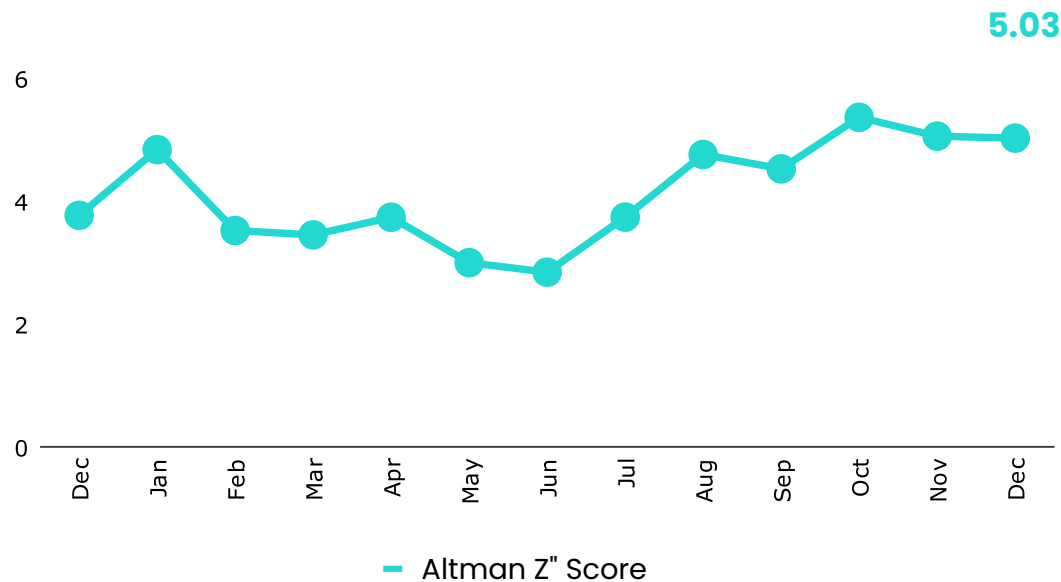
Altman Z" Score Bond Rating Equivalent

B+

Substantial Risk

Based on Altman Z" Score of 5.03

↑1.26 vs. one year ago



Z" Score	Bond Equivalent	
9.00+	AAA	Best Quality
8.60	AA+	High Quality
8.50	AA	
8.31	AA-	Upper Medium Quality
8.22	A+	
6.94	A	
6.12	A-	Medium Grade Quality
5.80	BBB+	
5.75	BBB	
5.70	BBB-	Sub-Prime (Junk Bonds)
5.65	BB+	
5.52	BB	
5.07	BB-	
4.81	B+	Substantial Risk
4.03	B	
3.74	B-	
2.84	CCC+	Extremely Risky or In Default
2.57	CCC	
1.72	CCC-	
1.30	CC	
0.47	C	
0.00	D	

Altman Z" Score Calculation

What is the Altman Z" Score?

The Altman Double Prime Z-Score is an enhanced version of the original Altman Z-Score model, developed by Edward I. Altman in 1968. The original Z-Score model was designed to predict the likelihood of a publicly-traded manufacturing company going bankrupt within two years. Over time, the model was adapted and expanded to apply to private companies in all industries, leading to the creation of the Altman Z" (Double Prime) Score, a credit scoring model now used widely by lenders, including the SBA. The Z" Score is considered the most reliable predictor of a bankruptcy. Both the value and the trend of the score are critical. The most recent Z" Score uses a range of equivalent bond ratings for private companies.

How is it Used?

1. Bankruptcy Prediction: to indicate financial distress or bankruptcy
2. Credit Risk Assessment: to measure a company's creditworthiness
3. Investment Decisions: to evaluate the financial health of potential investment targets
4. Performance Monitoring: to monitor financial health and take proactive measures if the score declines

How can I Improve my Score?

Common ways to increase the score include:

1. Focus on building consistent profitability
2. If possible, consolidate expensive short-term debt into long-term debt

How is it Calculated?

The score is the sum of four weighted metrics, plus a base value.

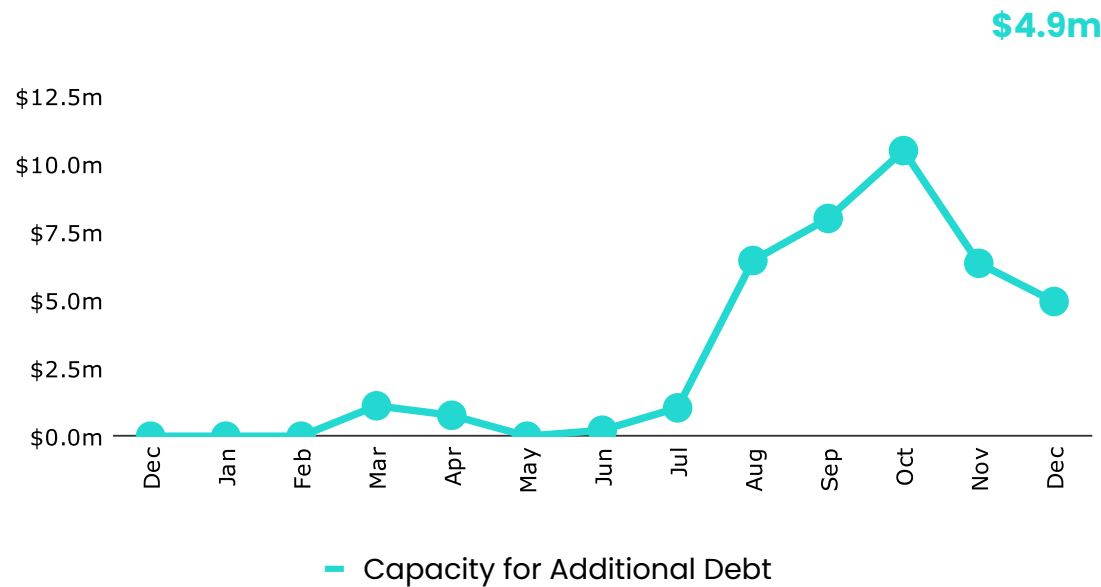
Company	Weight	Score
NWC ÷ Assets		
-0.13	x 6.56 =	-0.84
Ret'd. Earnings ÷ Assets		
0.08	x 3.26 =	0.26
EBIT ÷ Assets		
0.31	x 6.72 =	2.08
Book Value ÷ Liabilities		
0.27	x 1.05 =	0.28
Base Value		3.25
Total Z" Score		5.03

Capacity for Additional Debt

\$4.9m

Debt Capacity

↑ \$4,946,858 vs. one year ago



Source of Debt Capacity

Cash Flow

Adjusted Debt Capacity

\$10,734,320

Subtract Existing Debt

\$5,787,461

Capacity for Addtnl. Debt

\$4,946,858

Debt Capacity

1 Asset-Based Debt Capacity

	COMPANY*	LIMIT	DEBT CAPACITY
Receivables	\$4,611,940	75%	\$3,458,955
Inventory	\$411,218	50%	\$205,609
Fixed Assets	\$7,662,597	50%	\$3,831,298
Total Asset-Based Debt Capacity			\$7,495,863

2 Cash-Flow-Based Debt Capacity

	COMPANY*	LIMIT	DEBT CAPACITY
Free Cash Flow	\$3,947,888	3.25x	\$12,830,635
Cash-Flow Debt Capacity			\$12,830,635

* Company values reflect the last 12 months results

** Assuming a minimum 1.25x Debt Service Coverage Ratio

3 Constraints to Debt Capacity

	DEBT CAPACITY	
Biggest Source of Debt Capacity	Cash Flow	
Cash-Flow-Based Debt Capacity	\$12,830,635	
Max Debt Supportable by EBIT**	\$10,734,320	
Maximum Supportable Debt		\$10,734,320
Subtract Existing Debt	\$5,787,461	

Capacity for Additional Debt **\$4,946,858**

Understanding Debt Capacity

How Debt Capacity Works

There are several types of debt that a business can potentially tap into based on its historical financial performance. Each type of debt is based on specific metrics and create a “source” of debt. For example, strong, consistent free cash flow indicates that a company can service additional debt without jeopardizing its operational stability, therefore free cash flow is a source of debt capacity: the higher the cash flow, the more debt a company can support. There are four primary sources of debt capacity as shown.

The Lender's Perspective

While some lenders (e.g. banks) may look at all potential sources of debt capacity, some lenders are specialists in only one type of debt. For example, a debt fund might describe themselves as an “Asset-Based Lender” and will only look at a company’s assets as collateral to support a loan. Our analysis shows all potential sources of debt capacity to fully inform a management team on all debt options.

How to Increase Debt Capacity

While debt capacity rises with an increase in earnings, cash flow, and asset value, debt providers will also look at key ratios such as Debt Service Coverage Ratio and Fixed Charge Coverage Ratio, which we show to the right as potential constraints. In some cases, the easiest way to increase debt capacity is to improve those ratios if they are limited factors to current debt capacity.

Valuation Analysis

- Estimated Valuation Detail
- Industry M&A Overview
- Methodology Detail

Prepared: 12/22/2025

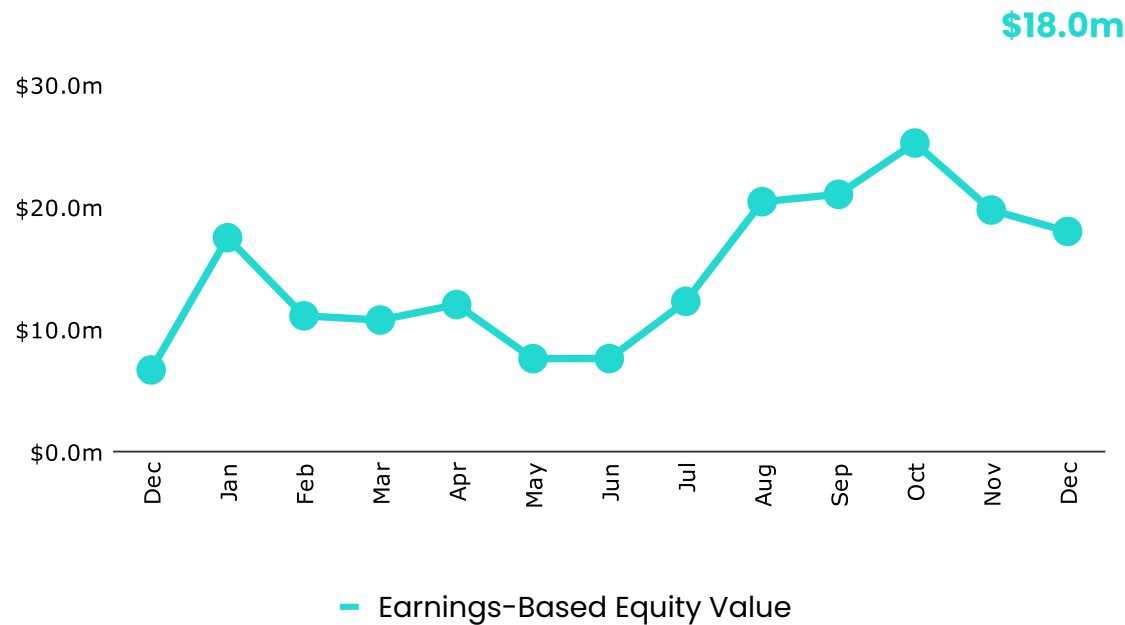
Financials as of: 12/01/2024

Valuation Overview

\$16.2m – \$19.8m

Earnings-Based Equity Value

↑ \$11.3m vs. one year ago



Adjusted EBITDA

\$5,470,010

x Adjusted Multiple

3.91x

+ Equity Adjustments

-\$3,419,458

= Equity Value Midpoint

\$17,985,000

Industry M&A Overview

Your Industry

236115 - New Single-Family Housing Construction (except For-Sale Builders)

Industry data is based on a 6-digit industry NAICS code. See [NAICS.com](https://www.naics.com) for more details on the industry code system. If there is too little benchmark data for this specific NAICS code, we apply the average of the broader industry sector.

Benchmark Averages

	Revenue	EBITDA
Sample Company	\$45.5m	12.0%
Private Businesses in Industry (Nationwide)	\$16.3m	9.6%
Private Businesses Sold in Industry	\$8.9m	9.0%

Deal Terms

on average across all industries

10

MONTHS TO SELL

Time to sell a business

8%

BROKERAGE FEES

Business broker's success fee based on the purchase price

10%

SELLER NOTE/ EARNOUT

Percent of value paid contingently, not up front

20%

CAPITAL GAINS TAX

The seller pays capital gains tax on take-home proceeds

Equity Value Calculation

1	Calculate Adjusted Earnings	Annual EBITDA	\$5,470,010
		+ Earnings Adjustment	\$0
		Net Adjusted Earnings	\$5,470,010

2	Calculate Adjusted Multiple	Average industry Earnings multiple	3.01x
		Adjustment for revenue size	20%
		Adjustment for recurring revenue	0%
		Adjustment for revenue growth	0%
		Adjustment for earnings margin	10%
		Net Adjusted Multiple	3.91x

3	Calculate Equity Value	Net Adjusted Earnings	\$5,470,010
		× Net Adjusted Multiple	3.91x
		+ Working Capital Adjustment	\$0
		– Debt	\$3,419,458
		Estimated Equity Value Midpoint	\$17,985,000

Valuation Methodology Detail

Overview

The objective of this analysis is to understand the factors that drive business value so that a company is best prepared to optimize those factors when preparing for an exit or capital raise.

The entire experience of selling a business can be a very emotional process for sellers who have spent decades building their firms, and one of the most sensitive parts of the process is usually the valuation of the business. Sellers will often feel their company is much more valuable than the market would indicate. Sometimes sellers will have a certain price they want, while other times their expectation was set by the price fetched by someone else when they sold. Much of this expectation gap has to do with the perceived value of the business by the owner, but part of the issue is a lack of understanding of the valuation process.

While buyers and intermediaries may use many different processes and models to arrive at what they feel the "market price" is for a target acquisition, there are fairly common vernacular and steps involved. At a high level, there are three primary steps:

- 1) Calculate Adjusted Earnings
- 2) Calculate Adjusted Multiple
- 3) Calculate Equity Value

Most valuations are calculated on the performance of the company over the last twelve (12) months (LTM), also expressed as Trailing Twelve Months (TTM), with a review of the previous twelve month periods just prior to the LTM period to look for averages and anomalies.

Step 1: Calculate Adjusted Earnings

Annual EBITDA or Net Profit

Businesses are typically valued based on their ability to generate profits, or "earnings". EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization) is a more accurate measure of earnings since it ignores context-specific expenses that might not apply to an acquirer. If earnings is negative (the company is operating at a loss), this analysis applies a multiple of Revenue.

Valuation Methodology Detail

Step 1: Calculate Adjusted Earnings (contd.)

Extraordinary Income and Expense

Any extraordinary income that may have affected the LTM Earnings is deducted to arrive at a true picture of the level of earnings being acquired. What many buyers feel is an extraordinary expense, such as a recent office move or the purchase of new computer equipment, is often not added back as many buyers will view those expenses and ordinary-course-of-business expenses that are normally amortized over a longer life and therefore not added back to boost earnings.

Owner Salary (expense, not distribution)

Any above market "Owner Benefit" that is paid through the company in the form of compensation and other benefits adds to the value as buyers will assume that they will pay market rates for the leader of the business. Unless there is already a CEO in place to run the business after an acquisition, a buyer will incur the expense of hiring a CEO (or paying themselves if they take on that role).

Step 2: Calculate Adjusted Multiple

Average Industry Multiple

These deal terms are reported by business brokers and investment bankers and used with permission under a license agreement with DealStats.

DealStats is a robust online database of acquired private company transactions sourced from business brokers, M&A advisors, and SEC filings. Learn more at www.bvresources.com/dealstats or visit www.bvresources.com/contribute to become part of the Contributor Network.

Valuation Methodology Detail

Step 2: Calculate Adjusted Multiple (contd.)

Adjustment for Revenue Size

In most cases, mere size drives a higher valuation. The time and cost for a buyer to source and complete an acquisition is significant and, all other things being equal, a buyer is normally willing to pay a higher purchase multiple for a larger company. Not only are the deal costs spread across more revenue and earnings, but there is also less perceived risk with a larger acquisition that has more earnings cushion to absorb integration and market risk introduced by the acquisition.

<u>Revenue Size vs. Industry Deal Database</u>	<u>Adjustment</u>
<0.50x	-30%
0.50x	-20%
0.75x	-10%
0.90x	0%
1.50x	10%
2.00x	20%

Adjustment for Revenue Growth

Everyone values growth and a fact-pattern of successful growth will often drive a higher valuation. On the other hand, a stagnant company with little or no growth prior to a sale will not be seen as an attractive candidate and will likely be discounted from the market averages.

<u>Revenue Growth</u>	<u>Adjustment</u>
-50%	-20%
-25%	-10%
0%	0%
25%	5%
50%	10%
100%	20%

Valuation Methodology Detail

Step 2: Calculate Adjusted Multiple (contd.)

Adjustment for Earnings Margin

While the amount of earnings is what will drive the Enterprise Value, any company that has higher-than-average earnings compared to peer companies – such as an EBITDA margin of 25% in an industry where the norm is 15% – will usually fetch a premium price while the inverse will drive a discount. Most strategic buyers do not like acquiring a company with a lower earnings rate that will dilute the buyer's overall earnings. The level of earnings is also an indication of the degree of effort to operate the newly-acquired company. A "turn-around" will always be sold at a discount to market multiples when compared to a high-performing company.

<u>Earnings Margin vs. Industry Deal Database</u>	<u>Adjustment</u>
Negative vs. Positive	-50%
Negative vs. Negative	0%
0.00x	-10%
0.75x	0%
1.25x	10%
Positive vs. Negative	10%

Adjustment for Recurring Revenue

Buyers readily recognize the higher value of business models that have recurring, contractual customer relationships rather than one-off transaction business models that start each month at zero revenue. The higher the revenue mix that is recurring, the higher the premium on valuation in general.

Step 3: Calculate Equity Value

The Equity Value of a company is defined as the market-based Owner's Equity in the business and is the value of what the owner actually "owns" in the business and does not account for brokerage fees and capital gains tax incurred on the sale of a business. This is the total pre-tax value you could reasonably expect to receive from a buyer, but this value is subject to further adjustments based upon the buyer's view of your business.

Debt is subtracted because either the buyer will acquire long-term debt and discount it from the purchase price, or the seller will retain the debt and pay it out of the proceeds. Excess Working Capital may be added if the value exceeds the amount needed to sustain operations.

Valuation Methodology Detail

Other Factors that May Affect Valuation

The Enterprise Value is adjusted based on the potential buyer's perspective. While Enterprise Value is market-driven, these adjustments are in the eye of the buyer and will feel more subjective. Here are some other common factors that affect the Enterprise Value:

Quality of Management Team - Whether or not the seller/owner is planning on retiring post-transaction, every buyer will want to see depth and quality in the rest of the management team. A key factor in increasing a company's valuation is growing and improving the quality of the management team that can successfully operate the business in the owner's absence.

Earnings Growth - While overall earnings is one thing, when a buyer sees a pattern of historical growth in the rate of earnings, it is a real indication of a very well-run company where the management team is able to extract operating leverage in their business model. A company that can demonstrate that its growth in earnings has consistently outstripped its growth in revenue, is a company that will usually get a premium price. If a seller has been experiencing flat or declining earnings as a percent of revenue, they may well want to correct that pattern prior to going to market as it will be seen as a negative and result in a price discount.

Customer Concentration - High customer concentration introduces revenue risk and will often lower the overall valuation. This is a far more critical valuation adjustment if a buyer is buying a business as a stand-alone business rather than acquiring and merging the seller's firm into a larger company. High concentration can be greatly mitigated through long-term recurring revenue contracts (see above) or through an earnout structure.

Customer Churn - The degree of customer turnover or churn is another typical valuation adjustment. Even a company that has higher than normal revenue growth will be viewed critically if it has high customer churn. Customer churn is an indicator of the potential for low customer satisfaction or renewal rates, higher-than-usual sales and marketing expenses, and lower than normal earnings.

Strategic Platform vs. Tuck Under - A seller's firm will be viewed as strategic—and therefore more highly valued—if the firm has a unique offering that can be sold to the existing customer base of the buyer, if the firm has unique capabilities that would drive significant value for the buyer (such as the ability to participate in a new market segment), or if the firm has a geographic presence the buyer wants to enter. Most "tuck under" acquisitions are just adding the seller's customers and offerings to the same types of customers and offerings of the buyer to bulk up its existing revenue and will not drive as much strategic value in the transaction.

Working Capital Characteristics - Working Capital (Current Assets minus Current Liabilities) is considered the amount of capital required to run the business at the status quo. Buyers typically require that this capital is left in the business to support ongoing operations. Buyers will typically demand that the Seller leave the average balance of Working Capital in the business at closing based on how the company has been operated over the LTM period. The Average Working Capital is the Total Current Assets, less the Total Current Liabilities. Most purchase agreements will call for an adjustment out of proceeds if the amount of Working Capital is above the average historical levels (the Seller gets additional cash) or below the average historical levels (the proceeds or Cash kept by the Seller are adjusted downwards).

Sales Pipeline - An established sales process and a strong pipeline of leads means new management does not have to start selling from scratch.

Valuation Methodology Detail

Other Factors that May Affect Valuation (cntd.)

Reputation and Client Satisfaction - This can be hard to objectively measure, but crucial in many business models. Also consider how this reputation may change after an acquisition. As part of their due diligence a potential buyer may initiate a customer satisfaction survey.

Length and Strength of Contracts - Even better than a sales pipeline is a contract with a customer. A business with long-term customer contracts means there is less risk of revenue fall-off post acquisition, so the value is much higher.

Revenue per Client - Higher revenue per client represents a lower relative cost of acquiring new customers. However, a business that is dependent on only a few key customers is a risky acquisition. (See Customer Concentration above).

Location - Businesses are more valuable when their location is a strategic advantage for a buyer.

Competition - When a business competes head-to-head with other alternatives, it will be more expensive for a buyer to grow revenue. Heavy competition also means there are more options for potential acquirers and usually more customer churn.

Market Dynamics - The value of a business is only as good as the amount of capital that is available for investment. At any given time, there may be more or less interest in investment in a particular industry or in private equity in general. For example, in a high-interest rate context, investment allocations tend to flow more to debt and fixed income and away from illiquid, private equity investments such as buying a private company.

Strategic Advantage to a Particular Buyer - The most valuable businesses are the ones that present a strategic advantage to a particular buyer. For example, an acquisition might: represent an easy up-sell or cross-sell to the much larger customer set of the buyer, open doors to an entirely new market, harness untapped value from an existing customer base, create economies of scale, or unlock new partnership opportunities. If there are strategic advantages for multiple buyers, then the competitive tension can drive the acquisition price up as potential buyers compete for the deal.

Personal Rules of Thumb - Many buyers will have developed their own view of valuation adjustments and apply their own rules of thumb on how they view a seller's business, based on their previous M&A and investing experience. For example, some Private Equity buyers have constructs such as the "Rule of 50" where a target company needs to score 50 points by summing the LTM revenue growth rate and the LTM EBITDA margin. For example, a company that grew revenue by 25% and had EBITDA margins of 25% scores a "50" and is viewed as attractive, while a company that grew revenue 30% but only had 10% EBITDA margins scores a "40" and would not be viewed as attractive.

Buyers will typically make these adjustments to a prospective seller's Enterprise Value along various dimensions compared to the buyer's previous experience, compared to the buyer's portfolio of companies, compared to the buyer's other potential acquisitions, and compared to the industry benchmarks for your industry.

Data Sources

Your Industry

236115 - New Single-Family Housing Construction (except For-Sale Builders)

Industry data is based on a 6-digit industry NAICS code. See [NAICS.com](https://www.naics.com) for more details on the industry code system. If there is too little benchmark data for this specific NAICS code, we apply the average of the broader industry sector.

ProSight Financial Association (ProSight FA)

Industry benchmarking data from private companies is sourced from ProSight FA's copyrighted Statement Studies® under a non-exclusive license granted by ProSight FA. The benchmark data is updated annually.

ProSight Statement Studies® is the only source of comparative industry benchmark data on small and medium-sized borrowers, and the data comes directly from ProSight FA's member institutions. www.prosightfa.org

The data was compiled from a sample not necessarily statistically representative. Reliance thereon should be limited accordingly. The data has been obtained from or is based upon sources believed by ProSight FA to be reliable, however, the data is provided without warranty of any kind and ProSight FA makes no representations or warranties, express or implied, to licensee or any other person or entity as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any of the data. The data is provided without warranty on the understanding that any person or entity that acts upon it or otherwise changes position in reliance thereon does so entirely at such person's or entity's own risk.

Business Valuation Resources (BVR)

Valuation data from private M&A deals is sourced from DealStats by BVR. Deal terms are reported by business brokers and investment bankers and are used with permission under a license agreement with DealStats. The M&A comparables data is updated annually.

DealStats is a robust online database of acquired private company transactions sourced from business brokers, M&A advisors, and SEC filings. Learn more at www.bvresources.com/dealstats or visit www.bvresources.com/contribute to become part of the Contributor Network.