LIMESTONE
STRATEGIC PARTNERS

Indiana-rooted embedded CFO
& operating partners

Sell-Side Quality of Earnings

Light Report · Prepared for the Company

Prepared for: Hoosier Supply Co. (illustrative), HVAC & plumbing wholesale distribution, Central Indiana

Prepared & signed by: Ryan Anoskey, CPA, Partner, LIMESTONE Strategic Partners

Basis: Three fiscal years (FY2023–FY2025, fiscal year ending December 31) plus trailing twelve months (TTM) ended June 30, 2026 · Confidential, under NDA

1. EXECUTIVE SUMMARY

Hoosier Supply Co. is a family-owned wholesale distributor of HVAC and plumbing products serving contractors across Central Indiana. Reported earnings understate the economics because the owner runs personal and above-market costs through the business. On an owner-operator basis, **Seller's Discretionary Earnings (SDE) is ~$1,532K (TTM)**; for a buyer who hires a manager, **Adjusted EBITDA is ~$1,247K (TTM)**, versus reported TTM EBITDA of $834K.

Forward verdict: these earnings should hold for the next owner.

On the procedures in this report, normalized SDE of ~$1,532K and Adjusted EBITDA of ~$1,247K (TTM) are a reasonable read of what this business earns on a go-forward basis, not just what it reported last year. The base is real: it ties to the filed tax return and to the bank. It is defensible: every add-back carries a document and a benchmark. Three things could move it, and a buyer's team will test each: customer concentration (top account 24%, top ten 70%), a FY2024 gross-margin step that has never been re-priced, and owner dependency. None changes the conclusion; all are laid out below so nothing surfaces as a surprise in diligence.

This is a light-scope, directional forward read. A deeper forward view, run-rate earnings, working capital, and balance-sheet quality, is a Core or Full procedure.

SDE (TTM)	ADJUSTED EBITDA (TTM)	REVENUE (TTM)	ADD-BACKS
$1,532K	**$1,247K**	**$11.0M**	**8 / 5**
owner-operator · the Main Street / SBA metric	vs. $834K reported	3-yr CAGR ~5.6%	tested / accepted · 3 rejected

Basis of the view: *the figures above rest on the procedures in this report, on financial statements prepared by management, and on adjustments identified through LIMESTONE's analysis and interviews with management. This is a qualified professional view, not an audit, a review, or an opinion. LIMESTONE did not perform a financial statement audit or review for the Company and expresses no opinion on whether the financial statements are fairly stated in all material respects. We rely on the management-prepared financial statements to determine historical earnings.*

Top findings

- **Defensible normalization.** Eight items tested; five accepted with a TTM impact of $413.6K (a $95.0K FY2024 legal settlement sits outside the TTM); three claimed items reviewed and rejected ($139.0K).
- **Customer concentration.** Top customer 24% of revenue; top ten 70%.
- **Margin trend.** Gross margin has held at 25.3% after a single FY2024 step (from 26.0%); the drivers are identified at §3 and §8.

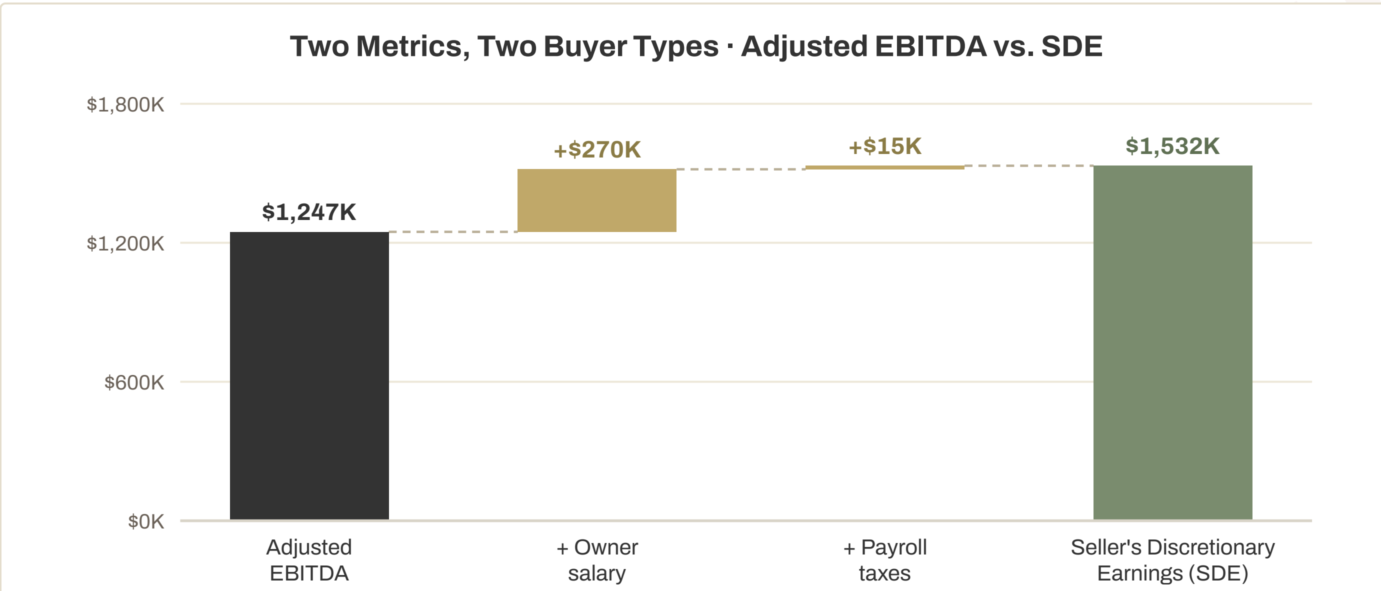
2. BUSINESS OVERVIEW

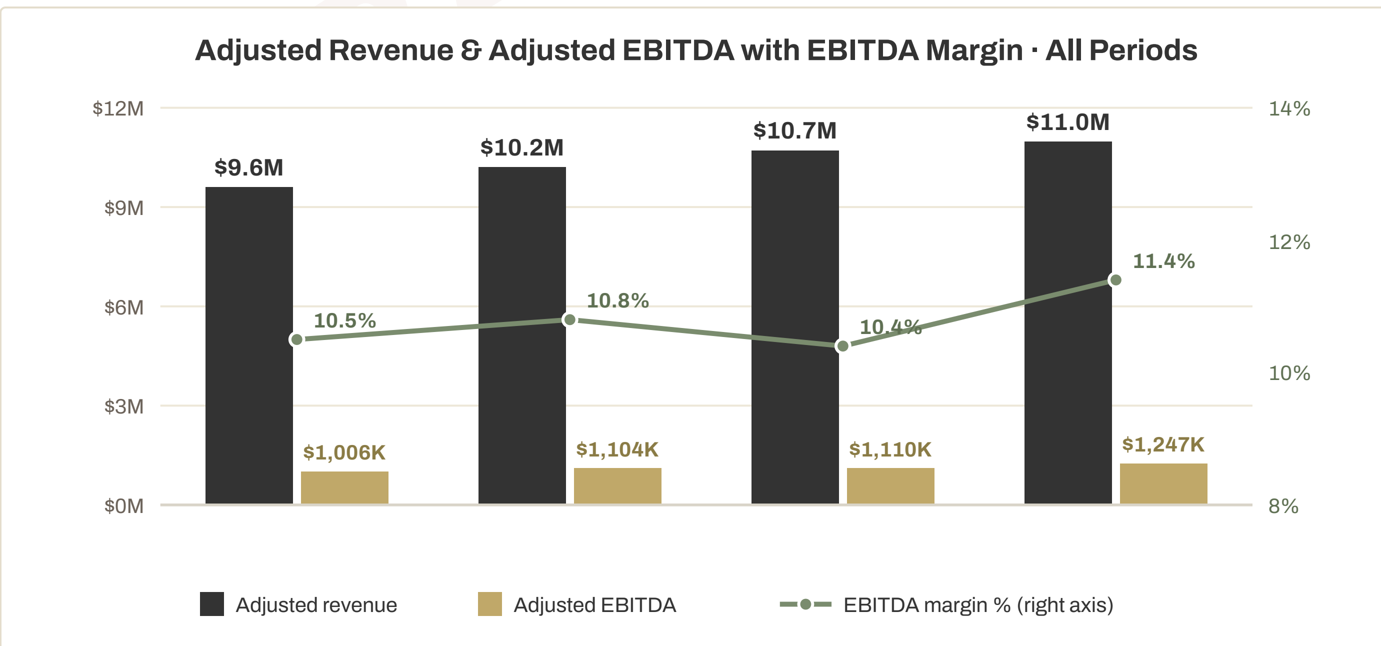
Founded 1998; 16 employees (1 owner, 6 office, 9 warehouse) at a single Indianapolis warehouse and counter. B2B distribution to HVAC and plumbing contractors; 89% of TTM revenue is contracted or repeat, the balance one-time. S corporation; internally prepared (unaudited) accrual-basis financials. Owner-operated. Sales are seasonal, weighted to the spring and summer cooling season.

3. SDE & ADJUSTED EBITDA, TWO METRICS, TWO BUYERS

Which number matters depends on who buys. We present both, and bridge between them.

SDE ($1,532K) adds the owner's full compensation back, the lens for an individual searcher or SBA buyer who steps into the owner's seat, and the basis most Main Street deals are valued and underwritten on. **Adjusted EBITDA ($1,247K)** normalizes owner pay to a market rate and assumes a hired manager, the lens for a private-equity add-on or a hands-off buyer.



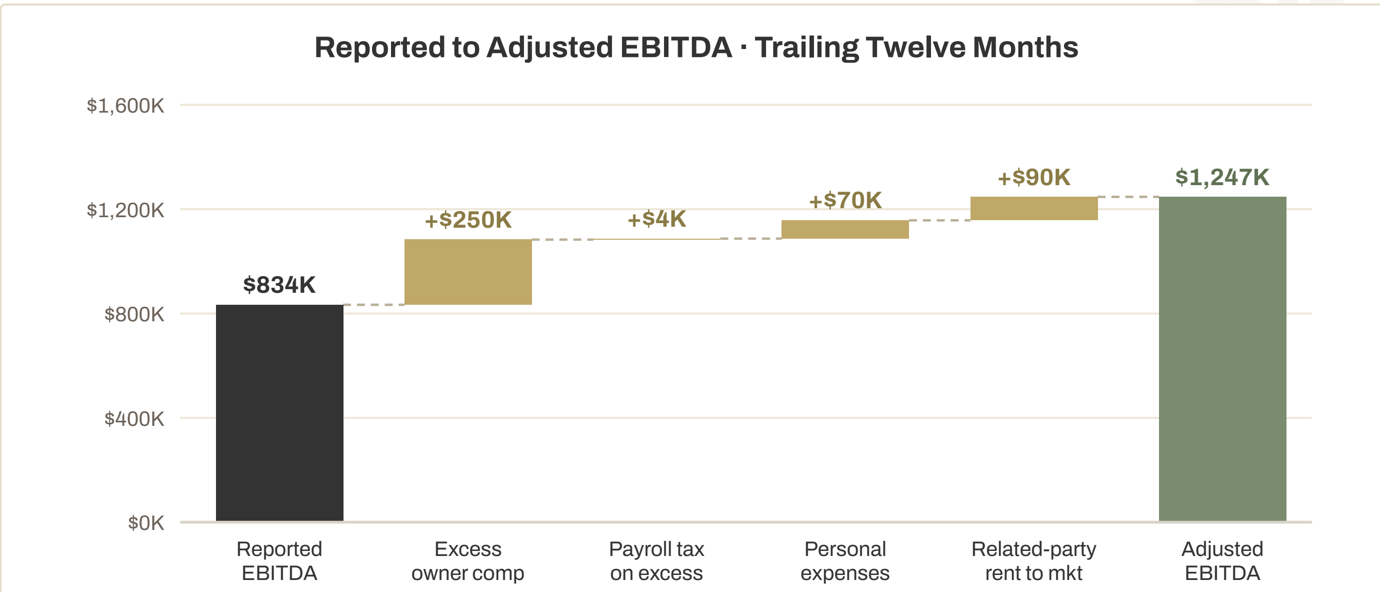


Source: Company general ledger and add-back schedule (§4); LIMESTONE analysis. Figures illustrative.

- Growth of ~5.5% (TTM vs. prior TTM) is volume-led and came from retained accounts (+6.5%); there was no new-customer acquisition in the TTM, and one churned account cost (1.1)%.
- Adjusted EBITDA margin rose to 11.4% (TTM) from 10.5% in FY2023 (prior TTM 9.9%) as SG&A leverage improved from 15.5% to 13.9% of revenue.
- Gross margin held at 25.3% after a single FY2024 step; the margin gain is overhead leverage, not price, indicating a cost structure that scales.

4. EARNINGS NORMALIZATION & ADD-BACKS

Reported TTM EBITDA is walked to Adjusted EBITDA. Every add-back is held to a **three-part test**: (1) a source document, (2) a plain-English reason it is one-time / personal / above-market, and (3) a **benchmark**: an independent market reference that proves the adjusted amount, for example a compensation survey establishing the market salary behind the owner-comp adjustment, or market rent comparables behind the related-party lease adjustment. Each part is a gate; an add-back that fails any gate is rejected and left in earnings. Each accepted adjustment is quantified for **every period under analysis** (FY2023 through TTM); the schedule below presents the TTM amounts, and the adjusted build for all periods is carried in §5.



Source: Company general ledger, owner W-2 and payroll register, lease and settlement agreements, regional compensation and market-rent benchmarks; LIMESTONE analysis. Figures illustrative.

Adjustment	Bucket	TTM	Basis & benchmark (3-part test)	Status
Excess owner compensation	Diligence	+$250.0K	Owner W-2 $520K vs. market GM/President ~$270K (regional comp survey).	Accepted
Payroll taxes on excess compensation	Diligence	+$3.6K	Employer payroll taxes on the excess compensation; travels with the adjustment above.	Accepted
Personal / discretionary expenses	Diligence	+$70.0K	Two vehicle leases ($33.0K), personal travel & meals ($9.0K), club dues ($18.0K), personal auto insurance ($10.0K) per GL detail.	Accepted
One-time legal settlement	Diligence	$0 (FY2024 +$95.0K)	Supplier dispute settled September 2024, tied to the settlement agreement; sits in FY2024, outside the TTM window.	Accepted
Related-party rent to market	Diligence	+$90.0K	Warehouse leased from owner's LLC at $360K vs. market ~$270K.	Accepted
Rebrand & website project	Management	+$85.0K / $0	Claimed one-time in FY2025; brand and digital spend recurs on a refresh cycle (fails Gate 1).	REJECTED

Two further claimed items were rejected and left in earnings: estimated personal expenses of $30.0K (a round-number estimate with no GL tie; fails Gate 2) and a claimed one-time marketing program of $24.0K that appears in each of the last three fiscal years (fails Gate 1). The three rejected items total $139.0K, and they are shown deliberately. A review that only stacks favorable adjustments gets discounted by buyers; showing what was tested and declined is part of what makes the accepted $413.6K defensible.

5. FROM THE TAX RETURN TO ADJUSTED EBITDA

The whole earnings story on one walk: taxable income per the filed federal return, reconciled to book income, built up to EBITDA, then normalized. Every step is tied before a buyer or underwriter ever asks.

The walk (FY2025, $ in thousands)	Amount	Tie
Ordinary business income per federal return (Form 1120-S, line 21)	416.5	Agreed to the filed return
Depreciation in excess of book (Sec. 179 / bonus)	80.0	Schedule M-1, recomputed
Meals (50%)	(6.0)	Schedule M-1, recomputed
Penalties	(2.0)	Schedule M-1, recomputed
Officer life insurance	(4.0)	Schedule M-1, recomputed
Net income per books	**484.5**	Ties to the internal P&L
Interest expense	50.0	GL
Depreciation	162.0	GL / fixed-asset register
EBITDA as reported	**696.5**	Recomputed
Tested add-backs (§4, FY2025 portion)	413.6	Add-back schedule
Adjusted EBITDA (FY2025)	**1,110.1**	

Period ($ in thousands)	Revenue	EBITDA per books / return	Net adjustments	Adjusted EBITDA	Adj. margin
FY2023	9,600.0	613.0	393.3	1,006.3	10.5%
FY2024	10,200.0	595.0	508.6	1,103.6	10.8%
FY2025	10,708.0	696.5	413.6	1,110.1	10.4%
TTM	**10,977.0**	**833.5**	**413.6**	**1,247.1**	**11.4%**

All three 1120-S returns (FY2023–FY2025) are filed. Gross receipts per return tie the books exactly in every filed year, and Schedule M-1 closes to zero each year.

6. PROOF OF CASH & PAYROLL TIE

Proof of cash. Monthly deposits into the operating and merchant accounts are reconciled to expected deposits from revenue, with the accounts-receivable bridge and reconciling items (transfers, sales tax collected, refunds) identified, across the last completed fiscal year plus the TTM. Every month reconciles within a 1% tolerance. Bank and processor statements were obtained from January 2024 forward; FY2023 is intentionally outside the bank scope. The bank activity supports the reported earnings.

Period ($ in thousands)	Expected deposits from revenue	Deposits attributable to revenue per bank	Variance	Result
FY2025	10,657.0	10,662.8	+0.05%	**PASS**
TTM	10,930.0	10,927.8	(0.02%)	**PASS**

Payroll tie. Gross wages per the payroll register tie to the general ledger and the quarterly Form 941 filings with no variance. The owner's W-2 compensation of $520K is confirmed from the register and W-2, the documented basis for the owner-compensation normalization below.

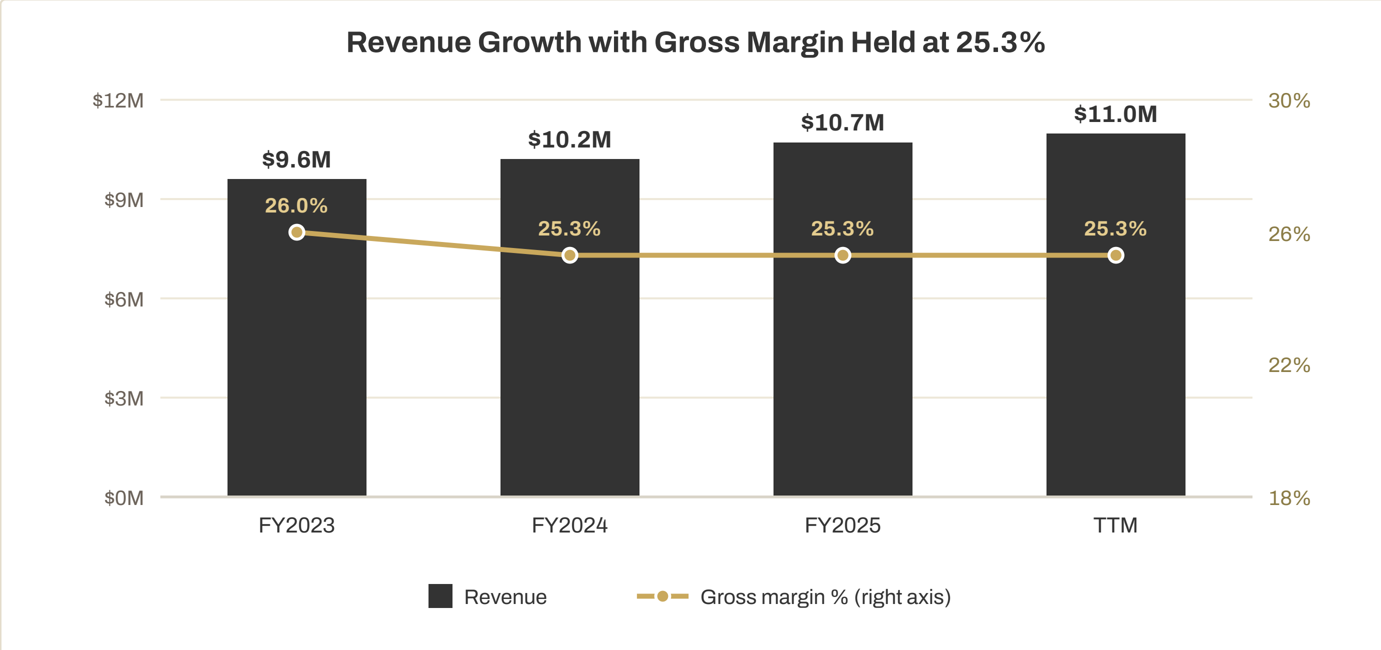
7. OWNER COMPENSATION & BENEFITS

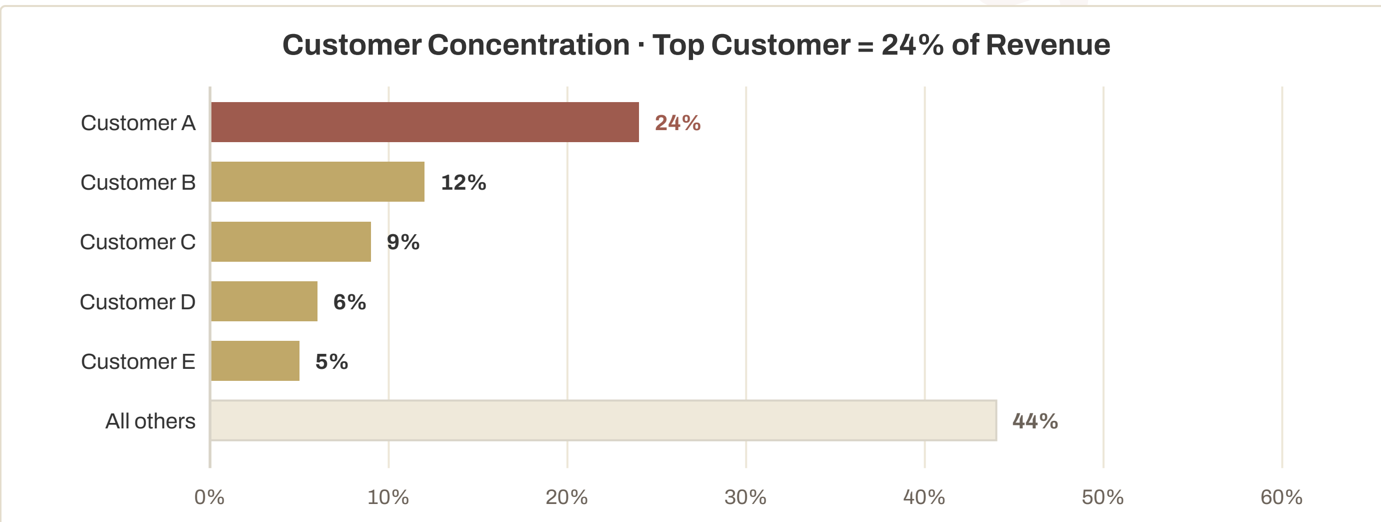
Our approach: identify everything the owner takes out of the business, then accept selectively. Buyers discount a report that quietly nets these items; laying them out is what makes the normalization defensible.

Owner economics (TTM)	Amount	Treatment
Owner W-2 salary	$520.0K	Normalized to market for Adjusted EBITDA; added back in full for SDE
Employer payroll taxes on owner compensation	$19.0K	The $3.6K attributable to the excess is added back with it (§4)
Personal & discretionary expenses (two vehicle leases $33.0K, travel & meals $9.0K, club dues $18.0K, personal auto insurance $10.0K)	$70.0K	Added back (§4)
Above-market related-party rent	$90.0K	Normalized to market (§4)
Total annual owner benefit	**~$699.0K**	

Market replacement: a general manager / president for a distributor of this size in central Indiana benchmarks at ~$270K (regional compensation survey, BLS OES cross-check). The $250K excess, plus $3.6K of employer payroll taxes on that excess, is added back for Adjusted EBITDA and a market-rate replacement package is retained in the forward view, so the number still holds on the day a buyer hires the replacement.

8. REVENUE QUALITY





Source: Company sales system and general ledger, revenue by customer; LIMESTONE analysis. Figures illustrative.

Read: 89% of TTM revenue is contracted or repeat, which supports durability. The top customer is 24% (top ten 70%; 21 active customers), and gross margin has held at 25.3% across FY2024, FY2025, and the TTM after a single step from 26.0% in FY2023; the drivers are discussed at §3.

9. DILIGENCE OBSERVATIONS

Observation	Basis
Customer concentration, top customer 24%	The top-customer relationship is long-tenured (management interview) but buys on open purchase orders; there is no supply agreement to assign, so relationship transfer is the risk.
FY2024 gross-margin step	One step, 26.0% to 25.3%, entirely in product and materials cost (63.5% to 64.5% of revenue); held at 25.3% since, and never re-priced (§3, §8).
Owner dependency	Key vendor and top-customer relationships run through the owner, a single owner-operator with no second-tier management; no documented succession or second-in-command role is currently in place.

10. SCOPE, BASIS & WHAT'S NEXT

Included in this light review

- SDE and Adjusted EBITDA with the full add-back schedule (3 FY + TTM); the walk from the tax return to Adjusted EBITDA; a proof of cash tying the books to the bank; a payroll tie; owner compensation set to market; revenue trend and customer concentration.

Procedures beyond this scope (available at Core / Full)

- **Core:** full revenue-quality analysis, margin by product and customer, industry benchmarking, a net-working-capital peg (it sets the closing true-up and is one of the most common re-trade points, so its absence here is a scope choice, not an oversight; quantified at Core with a seasonality overlay), run-rate EBITDA, and ad hoc procedures scoped to the deal. **Full:** the walk from purchase price to what the seller nets after debt and debt-like items, free cash flow & CapEx, balance-sheet quality, payroll & contractor review, and a diligence risk matrix. These procedures were not performed for this review.

OBJECTIVE

Prepared objectively as a consulting engagement (not an attest/independence engagement). Where LIMESTONE may later serve as CFO or co-invest, that is disclosed, and we do not present a deal in which LIMESTONE is an investor as an outside review.

CONFIDENTIAL

All information handled under NDA and shared only as the client directs. No third-party confirmations are made without instruction.

ACCOUNTABLE

Prepared and signed by a CPA. This is a consulting engagement, not an audit, valuation, or tax advice; findings are qualified, not guaranteed.