GREGORY ANALYTICS

Business and Financial Review

Wexcombe Precision Engineering Ltd

Five-year review, FY22 to FY26 · CNC machining and sub-assembly for industrial customers; 24 staff

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Illustrative example. Fictional business. The figures are invented to show the format of the report and are not drawn from any real company. Financial years end 31 March.

Executive summary

Wexcombe Precision Engineering Ltd · CNC machining and sub-assembly for industrial customers; 24 staff

£3.58m	9.3%	£11.2k	0.7x
Revenue FY26 · 11% a year since FY22	EBITDA margin FY26 (FY22: 10.9%)	Closing cash FY26 (FY22: £271k)	Net debt ÷ EBITDA FY26

The headline. The business is profitable every year, with sales up 11% a year, but it is turning profit into stock and debtors instead of cash. Money tied up in working capital rose from £443k to £887k, and closing cash fell from £271k to £11.2k despite £602k of cumulative profit after tax.

WHAT THE FIVE YEARS SHOW

- Revenue rose from £2.38m to £3.58m. EBITDA rose more slowly, from £260k to £332k, so EBITDA margin slipped from 10.9% to 9.3%.
- Gross margin fell from 40.0% to 34.5%. Material and energy costs rose and not all of it was passed on to customers.
- Stock days rose from 76 to 90 and debtor days from 54 to 62. Each extra day of debtors ties up about £9.8k.
- Cash conversion (debtor plus stock days less creditor days) lengthened from 86 to 112 days.
- Borrowing is manageable: net debt is 0.7x EBITDA and interest cover is 11.2x. But cash of £11.2k leaves almost no cushion if a big customer pays late.

RECOMMENDATIONS IN BRIEF

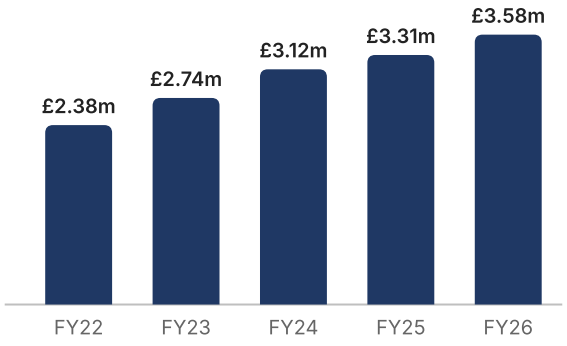
#	Action	Priority
1	Cut stock days to 75	High
2	Bring debtor days down to 52	High
3	Pass on material and energy costs	High
4	Agree a working capital facility before it is needed	Medium
5	Reduce reliance on the largest customers	Medium

Five years at a glance

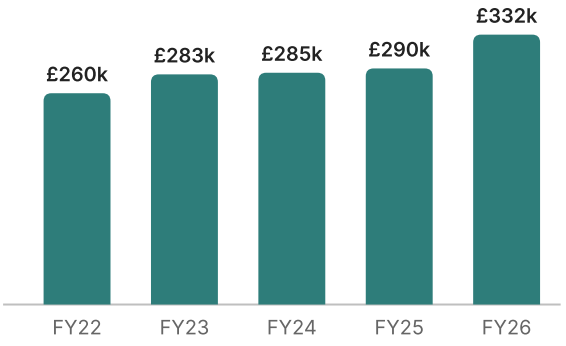
Profit and loss account, financial years ended 31 March.

£	FY22	FY23	FY24	FY25	FY26
Revenue	£2,380,000	£2,740,000	£3,120,000	£3,310,000	£3,580,000
growth		15.1%	13.9%	6.1%	8.2%
Cost of sales	(£1,428,000)	(£1,698,800)	(£1,996,800)	(£2,151,500)	(£2,344,900)
Gross profit	**£952,000**	**£1,041,200**	**£1,123,200**	**£1,158,500**	**£1,235,100**
gross margin	40.0%	38.0%	36.0%	35.0%	34.5%
Admin, sales and management pay	(£410,000)	(£438,000)	(£470,000)	(£495,000)	(£520,000)
Premises	(£96,000)	(£98,000)	(£112,000)	(£118,000)	(£121,000)
Energy	(£48,000)	(£70,000)	(£86,000)	(£74,000)	(£72,000)
Other overheads	(£138,000)	(£152,000)	(£170,000)	(£181,000)	(£190,000)
EBITDA	**£260,000**	**£283,200**	**£285,200**	**£290,500**	**£332,100**
EBITDA margin	10.9%	10.3%	9.1%	8.8%	9.3%
Depreciation	(£88,000)	(£95,000)	(£108,000)	(£128,000)	(£138,000)
Operating profit	**£172,000**	**£188,200**	**£177,200**	**£162,500**	**£194,100**
Interest	(£18,200)	(£16,000)	(£11,900)	(£25,200)	(£29,700)
Profit before tax	**£153,800**	**£172,200**	**£165,300**	**£137,300**	**£164,400**
Corporation tax	(£37,007)	(£41,883)	(£40,054)	(£32,634)	(£39,816)
Profit after tax	**£116,793**	**£130,317**	**£125,246**	**£104,666**	**£124,584**

REVENUE



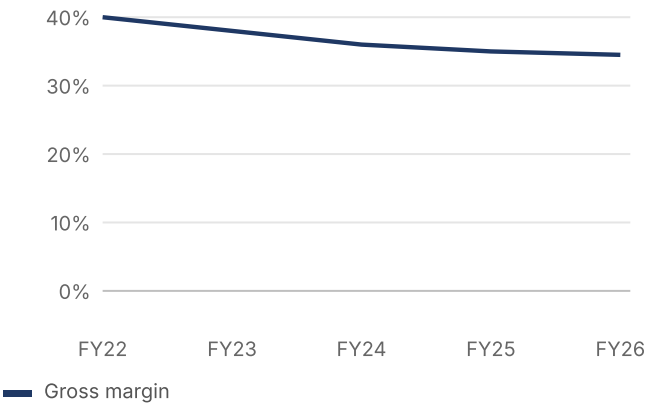
EBITDA



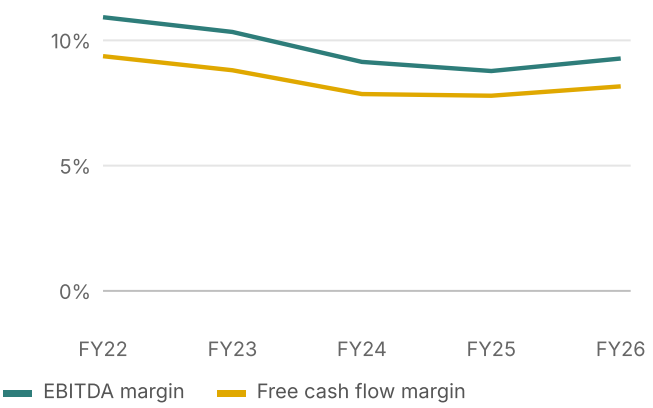
Margins and costs

Gross, EBITDA and free cash flow margins. Free cash flow here is EBITDA less corporation tax.

GROSS MARGIN



EBITDA AND FREE CASH FLOW MARGINS



WHERE EACH POUND OF REVENUE WENT

% of revenue	FY22	FY23	FY24	FY25	FY26	Change FY22 to FY26
Cost of sales	60.0%	62.0%	64.0%	65.0%	65.5%	+5.5 pts
Admin, sales and management pay	17.2%	16.0%	15.1%	15.0%	14.5%	−2.7 pts
Premises	4.0%	3.6%	3.6%	3.6%	3.4%	−0.7 pts
Energy	2.0%	2.6%	2.8%	2.2%	2.0%	−0.0 pts
Other overheads	5.8%	5.5%	5.4%	5.5%	5.3%	−0.5 pts
Total costs before depreciation	**89.1%**	**89.7%**	**90.9%**	**91.2%**	**90.7%**	**+1.6 pts**

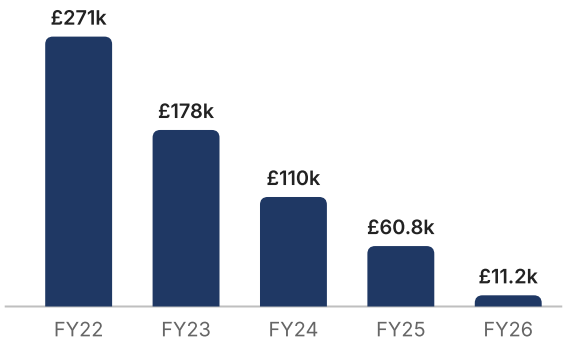
EBITDA margin moved −1.6 pts over the period. Costs have risen faster than sales. Each 1 point of margin is worth about £35.8k a year at FY26 revenue.

Cash flow and funding

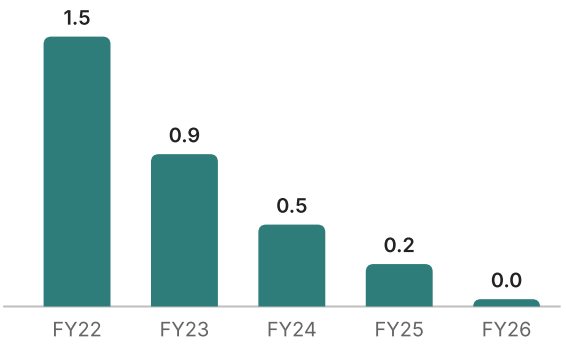
How the cash moved each year. Corporation tax is shown as paid in the year it is charged, for simplicity.

£	FY22	FY23	FY24	FY25	FY26
EBITDA	£260,000	£283,200	£285,200	£290,500	£332,100
Corporation tax paid	(£37,007)	(£41,883)	(£40,054)	(£32,634)	(£39,816)
Interest paid	(£18,200)	(£16,000)	(£11,900)	(£25,200)	(£29,700)
Working capital movement	(£23,310)	(£89,236)	(£150,659)	(£112,034)	(£92,118)
Capital expenditure	(£100,000)	(£130,000)	(£260,000)	(£200,000)	(£120,000)
Loans drawn	–	–	£200,000	£120,000	–
Loans repaid	(£60,000)	(£60,000)	(£60,000)	(£70,000)	(£80,000)
Dividends	(£50,000)	(£40,000)	(£30,000)	(£20,000)	(£20,000)
Net cash movement	**(£28,517)**	**(£93,919)**	**(£67,413)**	**(£49,368)**	**(£49,534)**
Opening cash	£300,000	£271,483	£177,564	£110,151	£60,783
Closing cash	**£271,483**	**£177,564**	**£110,151**	**£60,783**	**£11,249**

CLOSING CASH



MONTHS OF COSTS COVERED BY CASH



Over five years the business made £602k profit after tax, paid £160k in dividends and spent £810k on equipment and fit-out, and cash fell by £289k. Loans drawn were £320k and repaid £330k.

Balance sheet and working capital

Position at 31 March each year. The balance sheet balances in every year and closing cash agrees to the cash flow on page 5.

£	FY22	FY23	FY24	FY25	FY26
Fixed assets	£652,000	£687,000	£839,000	£911,000	£893,000
Stock	£297,337	£363,031	£459,538	£518,718	£578,195
Debtors	£352,110	£412,877	£495,781	£553,178	£608,110
Cash	£271,483	£177,564	£110,151	£60,783	£11,249
Total assets	**£1,572,930**	**£1,640,472**	**£1,904,469**	**£2,043,679**	**£2,090,553**
Trade creditors	£206,137	£243,362	£272,114	£276,658	£298,948
Bank loans	£200,000	£140,000	£280,000	£330,000	£250,000
Equity	£1,166,793	£1,257,110	£1,352,356	£1,437,021	£1,541,605
Total liabilities and equity	**£1,572,930**	**£1,640,472**	**£1,904,469**	**£2,043,679**	**£2,090,553**

WORKING CAPITAL

Days	FY22	FY23	FY24	FY25	FY26
Debtor days	54	55	58	61	62
Stock days	76	78	84	88	90
Creditor days	44	44	42	40	40
Cash conversion days	**86**	**89**	**100**	**109**	**112**
Cash tied up in working capital	£443,310	£532,546	£683,204	£795,238	£887,356

One day of debtors is worth about £9.8k of cash at FY26 revenue and one day of stock about £6.4k.

Benchmarks and returns

The ranges below are indicative figures from published guides, not a comparison with a named peer group. They are a prompt for questions, not a verdict.

Measure (FY26)	This business	Indicative range	Position	Source
Gross margin	34.5%	20% to 40%	**Within range**	3
Stock days	90	60 to 120 days	**Within range**	3
Debtor days	62	45 to 60 days (business customers, standard terms)	**Above range**	3
Creditor days	40	30 to 60 days	**Within range**	3
Current ratio (excluding loan instalments)	4.0	1.5 to 2.0 (comfortable)	**Better than range**	3
Interest cover (EBITDA ÷ interest)	11.2x	Lenders typically require at least 2x to 4x	**Better than range**	3
Net debt ÷ EBITDA	0.7x	2x to 4x is typical for mid-sized firms	**Better than range**	3

RETURNS AND LEVERAGE

£	FY22	FY23	FY24	FY25	FY26
NOPAT (operating profit less tax)	£130,614	£142,425	£134,262	£123,876	£147,091
Capital invested at start of year	£1,060,000	£1,095,310	£1,219,546	£1,522,204	£1,706,238
Return on invested capital	**12.3%**	**13.0%**	**11.0%**	**8.1%**	**8.6%**
Free cash flow (EBITDA less tax)	£222,993	£241,317	£245,146	£257,866	£292,284
Interest cover (EBITDA ÷ interest)	14.3x	17.7x	24.0x	11.5x	11.2x
Net debt ÷ EBITDA	-0.3x	-0.1x	0.6x	0.9x	0.7x

Capital invested is measured on the financing side: equity plus debt less cash. NOPAT is operating profit multiplied by one minus the effective tax rate.

Strengths, weaknesses and market

Strengths

- Gross margin of 34.5% sits inside the typical 20% to 40% range
- Sales growth of 11% a year over four years, with a profit in every year
- Manageable debt and strong interest cover
- Investment in machines has kept capacity ahead of orders

Weaknesses

- Debtor days of 62 are above the typical 45 to 60, and stock days of 90 are in the upper half of the 60 to 120 range
- Cash down to £11.2k
- ROIC of 8.6% is low for the capital employed
- Margin has slipped as costs rose

Opportunities

- Release cash by cutting slow-moving stock
- Tighten credit control and agree shorter terms
- Add a material price surcharge clause to quotes
- Win work from more customers to reduce reliance on a few

Threats

- A large customer paying late or leaving
- Raw material and energy price swings
- Rising interest costs on the asset finance
- Lender covenants if cash keeps falling

The market and competition

Small UK precision engineering firms compete on quality, lead time and reliability more than price, but larger customers push hard on payment terms. Firms in this position are often profitable on paper and short of cash, because they fund stock and customers' payment terms from their own resources. The aim is to be paid sooner and hold less stock without losing service.

> This page is a general commentary written for the sample. In a real review it would use the client's own competitors, local data and sector reports, with sources listed on page 10.

Recommendations

Five actions in order of value. The sums use FY26 figures and are estimates of scale, not forecasts.

#	Action	Why it matters, with the numbers	Priority
1	**Cut stock days to 75**	Stock days are 90, and the typical range is 60 to 120. Reducing to 75 would free about £96.4k of cash. Start with items that have not moved in six months.	High
2	**Bring debtor days down to 52**	Debtor days are 62. Reducing to 52 days would free about £98.1k. Invoice on despatch, chase at 7 days overdue, and ask for deposits on new customers.	High
3	**Pass on material and energy costs**	A 1 point rise in gross margin is worth about £35.8k a year. Add a surcharge clause to quotes and review the price list twice a year.	High
4	**Agree a working capital facility before it is needed**	Cash is £11.2k against monthly costs of about £271k. Arrange an overdraft or invoice facility while the numbers still look healthy.	Medium
5	**Reduce reliance on the largest customers**	Set a target that no customer is more than 25% of sales and track it monthly.	Medium

SUGGESTED FIRST 90 DAYS

- **Month 1:** agree the top two actions and put one owner against each.
- **Month 2:** put the monthly measures in place (margin, cash, days) and review them.
- **Month 3:** check progress against the numbers on this page and decide the next two actions.

> This review gives recommendations for management to consider. It is not a forecast, a valuation, or tax or legal advice.

Sources, scope and assumptions

WHAT THIS REVIEW COVERS

- Five years of annual accounts and management figures: profit and loss, balance sheet and cash flow.
- Trends, margins, cash, working capital and borrowing.
- Indicative sector ranges and a short market commentary.
- Recommendations, in writing. Up to 10 written follow-up questions are included.

WHAT IT DOES NOT COVER

- Tax advice, bookkeeping, audit or assurance, valuation, or a forecast.
- Calls or meetings, further questions beyond the 10, or carrying out the recommendations.

ASSUMPTIONS IN THIS SAMPLE

- The business and all figures are fictional and were built to tie out: the balance sheet balances and closing cash agrees to the cash flow.
- Corporation tax uses the UK main rates (19% to £50,000, 25% above £250,000, with marginal relief) and is shown as paid in the year charged.
- Interest is charged on the opening loan balance. Debtors, stock and creditors are derived from the days shown.

SOURCES FOR THE INDICATIVE RANGES

1. NetSuite UK, Restaurant benchmarks (food and beverage cost of sales typically 25% to 35% of turnover; prime cost 60% to 65%; UK net margin around 4%)
netsuite.co.uk/portal/uk/resource/articles/erp/restaurant-benchmarks.shtml

2. Sage, Understanding profit margins for restaurants (typical net margin 2% to 6%; UK average 4.2%; full-service 3% to 5%)
sage.com/en-gb/blog/understanding-profit-margins-for-restaurants/

3. FD Capital, Financial ratios: a UK CFO's guide (indicative gross margin by sector, debtor, creditor and stock days, current ratio, interest cover and leverage ranges)
fdcapital.co.uk/financial-ratios-a-uk-cfos-guide-to-company-performance-analysis/

The ranges come from general published guides and will differ for a particular business. A real review would add sector data matched to the client.