GREGORY ANALYTICS

Sale readiness review

Fenwick Precision

An indicative value range, not a formal valuation, a 12-month plan and a data room checklist

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Prepared for David Fenwick by Simon Gregory ACA, Chartered Accountant, Gregory Analytics. November 2026.

ILLUSTRATIVE EXAMPLE. FICTIONAL BUSINESS. Built from accounts filed at Companies House, public registers and published market and price data. No profit and loss account is filed, so profit is measured two ways, from the change in reserves and from the corporation tax owed, and the forecast estimates turnover from the public record.

Important notice

Please read this before relying on anything in the report.

WHO IT IS FOR

I prepared this report for David Fenwick, as managing director and owner of Fenwick Precision Ltd, under my engagement letter of November 2026. It is for use in running the businesses. To the fullest extent the law allows, I accept no duty of care or liability to anyone other than Fenwick Precision Ltd for this report or anything in it.

SHOWING IT TO A BANK, INVESTOR OR BUYER

- You may give a copy to a lender, investor or buyer once they have signed my standard release letter. In it they agree that the report was not prepared for them, that they will make their own enquiries, and that I owe them no duty of care.
- Where a release letter is not practical, for example a loan application portal, they receive the report on the terms of this notice only.
- Anyone who wants to rely on the report must first agree terms with me in writing, including a limit on my liability.
- No part of the report may be quoted, copied or put in another document without my prior written consent.

WHAT IT IS

- A review of public information: accounts filed at Companies House, public registers, and published market and price data, read on the dates shown. Figures from the companies' own records are marked M.
- An earnings, cash flow and balance sheet quality review: the first checks a buyer's or lender's accountants make, here on the filed accounts and the records provided. It covers the quality of earnings and cash flow, the balance sheet (working capital and net debt), the quality of the accounts, the credit record, borrowing capacity, filings and compliance (Part B). It is not a full due diligence for a buyer or lender, which would test the companies' records and contracts in full.
- A business cash flow forecast for 2027 to 2029, built from that information and from assumptions I have set, each one stated with its basis.
- It is not an audit, a review or any other assurance engagement. I have not checked the filed accounts against the companies' records, and the accounts themselves are unaudited.
- It is not a formal valuation, investment advice, or legal or tax advice. The indicative value range (page 5) applies published market multiples to the underlying EBITDA in this report; it is not an opinion of value and is not prepared to valuation standards. Where a point needs legal or tax advice, I say so.

LIMITATIONS

- No profit and loss account is filed. In the analysis, profit is measured two ways: at least the change in net assets (the minimum, from retained profit, which leaves out any dividends), and a best estimate from the corporation tax owed, which is before dividends. In the forecast, turnover and margins are my estimates, worked back from the tax owed, the change in reserves, staff numbers and working capital.
- Some related-party amounts can differ between a year's own filing and the next year's comparative. I have used each year's own filing.
- Market data and prices change. A forecast is an estimate, and actual results will differ, sometimes by a lot. The directors remain responsible for the decisions they take on it.
- The report reflects what I knew on 3 November 2026. I will not update it for later events unless we agree that in writing.

HOW SURE EACH FIGURE IS

Every scorecard test and every assumption carries one of three labels, and the same labels are used throughout the report.

- P **Public record**: taken from the filed accounts, public registers, published data or tax rules.
- E **My estimate**: calculated or set by me, such as the minimum profit from retained profit, the dividends worked back from the tax owed, the cost of capital, the rebuilt cash flows, the distress score and most of the forecast assumptions, including turnover.
- M **Management**: from the companies' own records or plans. In this report, the management accounts on the normalised earnings pages.

INDEPENDENCE

I have no family, financial or business link with the company or its owner.

LIABILITY AND CONFIDENTIALITY

My liability is limited as set out in the engagement letter. The report is confidential to the companies named in it. I will not publish any part of it without your written permission.

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Simon Gregory ACA, Chartered Accountant, trading as Gregory Analytics. Report dated 3 November 2026.

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How to read this report. Start with the one-page answer on page 5. The pages after it show how each figure is built, with its basis marked P (public record), E (my estimate) or M (management). The appendix holds the definitions and sources.

Important notice: page 2. Definitions and the full source list are on page 19.

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PART A

Sale readiness review

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1. An indicative value range

Indicative, not a formal valuation. This range applies published market multiples to the underlying EBITDA in this report, then deducts net debt and debt-like items. It is not an opinion of value, it is not prepared to valuation standards, and it is not investment advice. What a buyer pays depends on the buyer, the terms and the negotiation.

	Fenwick
Underlying EBITDA, 2025 (normalised earnings) E	£540k
Market multiple for deals of this size P	4.3x
Less for the findings below E	−0.55x at the low end
Enterprise value	**£2.02m to £2.31m**
Less net debt and debt-like items E	+£246k
Working capital at the year end against normal E	Not measured
Less items that may be debt-like (low end only) E	+–
Value of the shares: indicative range	**£2.26m to £2.56m**
Net assets, for comparison P	£1.66m

FINDINGS THAT LOWER WHAT BUYERS PAY

Buyers pay lower multiples for small size; owner dependence; customer concentration; non-recurring revenue; poor information; weak cash conversion; related-party arrangements; unresolved tax or legal issues. Each finding marked red takes 0.25x off the low end of the range, after 0.3x for the spread between the last two market readings.

Finding	Fenwick
Depends on one person	Managing director and owner
One large customer	Largest 40%
Accounts a buyer cannot rely on (page 13)	Quality of the accounts amber
Profit not turning into cash (page 9)	Cash conversion 74%
Related-party arrangements	None red

- Every £10k added to underlying EBITDA adds about £43k at the top of the range; every £10k of debt-like items paid off adds £10k.

Multiples: Dealsuite UK & Ireland M&A Monitor, August 2026 (deals in the first half of 2026); the curve by size via a secondary source P: an average of 5.4x, rising with size from 3.6x at £200k of EBITDA to 8.2x at £10m; Dealsuite, February 2026 (second half of 2025): 3.3x and 8.4x at the same sizes. Below the smallest size in the data, multiples are usually lower still. In 2025, 27% of European deals used an earn-out, the highest since the study began (CMS European M&A Study 2026); in over half of earn-out deals the deferred part was 10% to 20% of the price (Dealsuite Deal Terms Report, November 2025). The range and the deductions are my estimate E. Fictional example data.

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2. Getting ready to sell: a 12-month plan

A buyer pays for profit it can check, cash it can see and a business that runs without its owners. This plan works through what the review found, in the order a buyer will look at it, so that the business is ready to go to market by Spring 2028.

When	What to do	What it fixes	Who
Months 1 to 3 (to 2 February 2027)	Fix the filing and disclosure gaps (recommendation 1)	Credit file and notes	Accountant
	Start monthly management accounts with a cash bridge, prepared by the bookkeeper (recommendation 6)	Quality of the accounts (page 13)	Bookkeeper; owner reviews
Months 4 to 6 (to 4 May 2027)	Agree the normal level of working capital from 12 month ends, and keep the year end close to it	The working capital adjustment to the price (page 15)	David and accountant
	Hand the managing director and owner's customer relationships and bank signing to a second person	Dependence on one person	David
	Review the main customer and supplier contracts for notice periods and change-of-control terms	Concentration and contract risk	Solicitor
Months 7 to 9 (to 3 August 2027)	File the next accounts early, with the full profit and loss account	Quality of the accounts (page 13)	Accountant
	Build the data room from the checklist (page 7)	A buyer's first requests (page 7)	David, with the accountant
	Choose a corporate finance adviser with engineering deals, and a solicitor who acts on company sales	Getting to market	David
Months 10 to 12 (to 3 November 2027)	Refresh this review on the latest records: trading update, working capital and net debt	What a buyer sees on day one	Gregory Analytics
	Go to market, aiming for Spring 2028		David and adviser

WHERE THE COMPANIES START

- **Fenwick**: on the scorecard, 2 red and 3 amber. The plan aims to turn the reds amber by month 6 and green by month 12.

> **What a buyer checks first:** underlying EBITDA (page 11), whether profit turns into cash (page 9), net debt and debt-like items (page 15), the normal level of working capital (page 15), customers and key people and how the group fits together.

The steps come from the findings on the pages given E. Fixing them before a sale, not during the buyer's due diligence, is what protects the price: problems found by a buyer's accountants are usually priced in, or pushed into earn-outs and deferred payments. Fictional example data.

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3. Data room checklist: what a buyer's advisers will ask for

Once a buyer is interested, its accountants and solicitors send a long list of requests. Having the answers ready shortens the deal and keeps the price from slipping. 3 of the 30 items are ready or in this report; 0 are missing.

Document	Status
Company and group	
Statutory registers, articles and any shareholders' agreement	To prepare
Group chart: every company under common control, with owners and year ends	To prepare
Board minutes for the last three years	To prepare
Loan agreements for the balances between the companies	Ready
Guarantees, debentures and other security, with the charges register	Partly ready
Financial	
Full accounts with the profit and loss account, three years	To prepare
Monthly management accounts, 24 months, agreed to the full accounts	To prepare
Normalised EBITDA bridge, with the evidence for each adjustment	In this report (page 11)
Working capital at each month end, and the normal level	To prepare
Net debt and debt-like items	In this report (page 15)
Business cash flow forecast	To prepare
Aged debtors and creditors at the last three month ends	To prepare
Bank statements, facility letters and leases	To prepare
Tax	
Corporation tax returns and computations, three years	To prepare
VAT returns and the HMRC online account statements	To prepare
Any Time to Pay arrangement and HMRC letters	To prepare
Director's loan accounts and the section 455 position	To prepare

Document	Status
Customers and suppliers	
Sales by customer for three years	To prepare
Customer and supplier contracts, with notice and change-of-control terms	To prepare
Projects in progress, with costs, billing and margins	To prepare
People	
Staff list with roles, pay, start dates and notice periods	To prepare
Employment contracts and the staff handbook	To prepare
Pension auto-enrolment records	To prepare
Freelancer agreements and employment status checks	To prepare
Property, assets and IP	
Leases and licences for the premises, with rent reviews	To prepare
Fixed asset register	To prepare
Patents, designs and trade marks, and who owns them	To prepare
Other	
Insurance policies and claims history	To prepare
IT systems, data protection and cyber security	To prepare
Disputes, claims and complaints	To prepare

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> Keep the data room in one shared folder with a numbered index, add documents as they are ready, and give the buyer's advisers read-only access only after a confidentiality agreement is signed.

The list follows the requests a buyer's financial, legal and tax advisers usually make on a small company sale; the statuses are from the records reviewed and the pages given [E]. Fictional example data.

PART B

What a buyer will test

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4. Quality of earnings and cash flow

Quality of earnings asks how much of the profit is real, recurring and turns into cash. It is the first thing a buyer's or investor's accountants test, because a business is priced on its profit: if a buyer pays six times profit, every £1 of profit that is not real or does not repeat takes about £6 off the price. Lenders ask the same question in a different form: can the profit pay the loan?

Test	Green / amber / red	Fenwick
1. Cash conversion: free cash flow ÷ profit, both before dividends	80% or more / 60% to 80% / below 60%	🟡 74%, 2020 to 2025, adding back the £1.07m of dividends its tax implies (21% on retained profit)
2. Accruals ratio: profit not backed by cash (increase in working capital and other debtors ÷ average total assets)	Below 0% / 0% to 10% / above 10%	🟡 0.9% a year on average, 2021 to 2025 (0.6% in 2025)
3. Profit held in unexplained balances: unexplained other debtors ÷ net assets	Under 10% / 10% to 30% / over 30%	🟢 2%: £26k against net assets of £1.66m
4. Profit backed by tax: does the tax owed fit the profit?	Fits / differs, with a likely reason / does not fit	🟢 Tax owed at December 2025 of £98,100 fits about £392k of taxable profit; reserves rose £114k
5. Steady profit: years in which reserves fell or grew by under £10k, 2021 to 2025	None / one / two or more	🟢 None
6. Profit from capitalised costs: costs moved to the balance sheet ÷ profit, 2025	Under 10% / 10% to 50% / over 50%	🟢 None of note
Overall, from the public record	**Red if two or more of tests 1 to 6 are red**	🟡 **None red**
7. In the forecast: net cash flow ÷ profit after tax, 2027 to 2029	80% or more / 60% to 80% / below 60%	🟡 63%

All tests E: my calculations from the filed accounts and, for test 7, the forecast. Cash conversion is free cash flow ÷ profit, both before dividends. The filed accounts do not show dividends, so both are first measured after them, then the dividends worked back from the tax owed are added back, in the years where the tax fits. The accruals ratio follows Sloan (1996), measured on the balance sheet; its colour bands and those for cash conversion are practitioner rules of thumb, not formal standards. Free cash flow is from the cash flows rebuilt in my working papers.

Illustrative example 3 November 2026

WHAT IT SHOWS

- **Only part of the profit has translated into cash.** Over six years Fenwick retained £512k of profit, and its free cash flow after any dividends was £107k. Adding back the £1.07m of dividends its tax implies, it turned about 74% of its profit into cash. The difference went into working capital and other debtors, £26k of them unexplained. A buyer would treat that money as unproven until it is collected.
- **Fenwick's tax fits its profit.** The tax it owed at the end of 2025 points to about £294k of profit after tax, against a £114k rise in equity. That supports the profit figure and suggests about £180k was paid out.
- **In the forecast, profit turns into cash** at 63% for Fenwick, because it assumes no more money goes into other debtors and Fenwick runs its stock down. Doing that is what would move tests 1 and 2 towards green.

A full quality of earnings review would also adjust what the public record does not show: directors' pay against a market salary, one-off costs and income, and owners' costs paid by the business (pages 11).

5. Quality of earnings and cash flow: why it matters and how to fix it

Profit that does not turn into cash costs money in four ways.

FOR YOU, RUNNING THE COMPANY

Tax is paid on profit, not on cash. Profit that sits in other debtors or stock rather than in the bank is still taxed, and dividends, pay rises and investment can only come from cash. Without a monthly cash bridge, the first sign of a squeeze is the bank balance. A cash bridge is a short table in the monthly accounts that starts with profit and ends with the change in the bank balance, showing each step between: debtors, stock, creditors, customer deposits, tax, equipment and money lent to related companies.

FOR LENDERS

A lender is repaid from cash, not profit. It sets the loan size and its covenants from profit after its own adjustments, and checks that cash follows. Profit that stays in debtors and stock gives less room on debt service cover, and a lender will look for security instead.

FOR INVESTORS AND BUYERS

A business is priced at a multiple of adjusted profit, so every £1 a buyer's accountants take off profit comes off the price several times over. Diligence findings are now a leading reason deals fail: in Axial's 2025 survey of US lower mid-market deals, gaps between reported and checked profit ended about a fifth of failed deals, and other diligence findings a quarter more. Buyers also look through capitalised development to the cash it costs.

FOR CREDIT AGENCIES AND SUPPLIERS

Credit scores rest on the filed accounts. Rising profit with falling cash, and large unexplained debtors, read as risk, which means lower credit limits from suppliers and more questions from customers.

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HOW TO FIX IT

When	What	Who
Next 2 weeks	List the other debtors by counterparty and type, and chase any customer money in them (£26k at Fenwick)	David
From January 2027	Add a cash bridge to the monthly management accounts: profit, then the change in debtors, stock, creditors and deposits, then cash. Track debtor days, stock days and deposits held	Bookkeeper prepares; David reviews
2026 accounts	File the profit and loss account.	Accountant
12 to 24 months before raising money or selling	Commission a quality of earnings review on your own side: directors' pay against a market salary, related-company charges at arm's length, and one-off items, so a buyer's adjustments hold no surprises	David and accountant

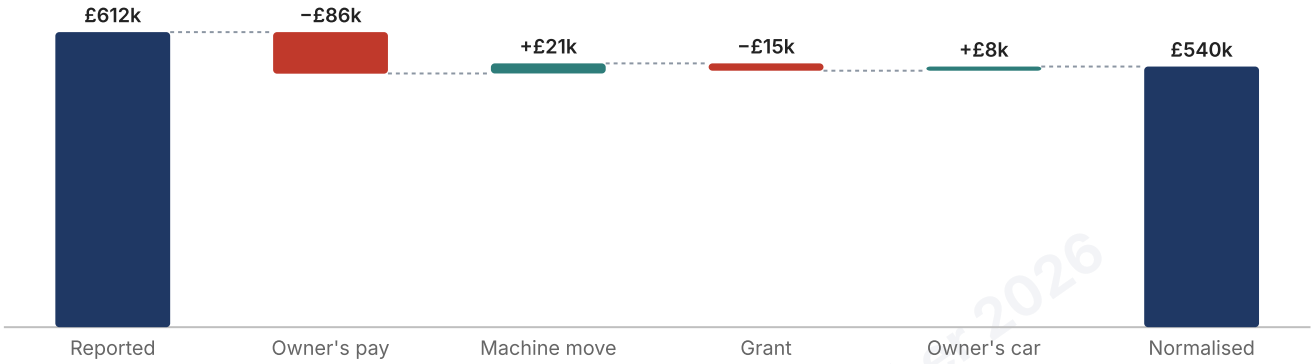
The quickest wins cost little: explain and collect the other debtors, stop lending between the companies without paperwork, and add a cash bridge to the monthly accounts. Those three would turn tests 1 to 3 on page 9 from red towards green in the next two sets of accounts (recommendations 3 and 6).

Sources: Axial (2025), Dead Deal Report; BDO (March 2025), Valuation Drivers; ICAEW Corporate Finance Faculty, Best-Practice Guideline 64, completion mechanisms; Sloan, R. (1996), Do stock prices fully reflect information in accruals and cash flows about future earnings?, The Accounting Review; HMRC, Corporate Intangibles Research and Development Manual CIRD81450; GOV.UK, the merged research and development scheme.

6. Normalised earnings: from reported to underlying EBITDA

A lender or a buyer does not take reported EBITDA at face value. They take out what will not happen again and put the owners' pay and the charges between related companies on a market footing. What is left, underlying EBITDA, is what they lend against and what the forecast starts from. Each adjustment needs evidence, and a lender will discount any it cannot check.

FENWICK: FROM REPORTED TO UNDERLYING EBITDA, 2025



Item	£	Why	Evidence a lender will want	Will a lender accept it?
Reported EBITDA, 2025 (management accounts)	**£612k**			
The owner's salary set to a market rate for a managing director	−£86k	David Fenwick takes a £12,570 salary and the rest as dividends. A buyer will need to pay a managing director about £98,000 with employer costs.	Payroll summary; dividend vouchers	Likely
Costs of moving two machines into the new bay in 2025	+£21k	Riggers and re-commissioning, paid once in May 2025. No similar costs in the last five years.	Rigger and engineer invoices	Likely
A one-off local manufacturing grant	−£15k	Paid once in 2025 towards a measuring machine.	The grant offer letter	Likely
The owner's second car paid by the company	+£8k	Used by the family, not for the business.	Lease agreement; insurance schedule	Unlikely
Normalised EBITDA, 2025	**£540k**	**88% of reported**		

Fenwick's underlying EBITDA is £540k, a cut of £72k on the reported figure. On sales of £4.05m, the EBITDA margin moves from 15.1% to 13.3%. A cautious lender will accept only the lines marked green, which gives £532k. That is the figure to use for borrowing in my working papers and as the starting point for the forecast.

> **Example figures.** In a live report every line comes from the management accounts and the evidence listed, and I take out any adjustment I cannot support.

Method: a quality-of-earnings review in brief, as used in financial due diligence. Adjustments are shown before tax. Green: a lender will usually accept it with the evidence listed. Amber: possibly, with strong evidence. Red: unlikely to be accepted, shown for completeness. Definitions on page 19.

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7. Working capital and the distress score

Fenwick ties up £548k, mostly in trade debtors. On the distress score Fenwick is in the safe zone for 2025.

£, 31 December	2021	2022	2023	2024	2025
Fenwick Precision Ltd					
Stock	£252k	£296k	£318k	£335k	£353k
Trade debtors	£578k	£664k	£702k	£732k	£768k
Prepayments and accrued income	£25k	£27k	£29k	£31k	£33k
Trade creditors	(£319k)	(£371k)	(£353k)	(£367k)	(£384k)
Accruals and deferred income	(£66k)	(£71k)	(£78k)	(£83k)	(£86k)
VAT, PAYE and other taxes owed	(£104k)	(£113k)	(£121k)	(£130k)	(£136k)
Net working capital	**£365k**	**£433k**	**£497k**	**£519k**	**£548k**
Memo: other debtors not explained	£20k	£24k	£23k	£27k	£26k

Net working capital = stock + trade debtors + prepayments − trade creditors − accruals and deferred income − VAT, PAYE and other taxes owed. Corporation tax, loans and balances with related companies are left out, because a buyer treats them as debt-like (page 15). Deferred income is money customers have paid before the work is done, also called deferred revenue; in a sale it is the item most argued over, and a buyer is likely to treat customer deposits as debt-like. The other debtors not explained in the accounts are shown for reference and left out of the total.

DEBTOR, STOCK AND CREDITOR DAYS

Measure	How it is worked out	Fenwick
Debtor days	Trade debtors ÷ turnover × 365	69 days E
Stock days	Stock ÷ cost of sales × 365	92 days E
Creditor days	Trade creditors ÷ cost of sales × 365	101 days E
Cash conversion cycle	**Debtor days + stock days − creditor days**	**61 days** E

DISTRESS SCORE: ALTMAN Z'' (INDICATIVE)

Altman Z''	2021	2022	2023	2024	2025
Fenwick Precision Ltd	6.15 safe	5.60 safe	6.00 safe	5.98 safe	6.09 safe

Z'' = 6.56 X1 + 3.26 X2 + 6.72 X3 + 1.05 X4. X1 = (current assets − creditors due within a year) ÷ total assets; X2 = profit and loss reserve ÷ total assets; X3 = retained profit (change in the profit and loss reserve) ÷ total assets, a stand-in for operating profit, so the score is a minimum; X4 = net assets ÷ total liabilities (all creditors and provisions). Zones: above 2.60 safe, 1.10 to 2.60 grey, below 1.10 distress.

> **Indicative.** Altman's Z'' model for non-manufacturers was built on larger companies, and here related-company balances count as ordinary assets and liabilities. It is the Altman version that needs no turnover, so it works on accounts filed without a profit and loss account.

READING IT

- **The days use the turnover estimated for the forecast** E, because no profit and loss account is filed. Fenwick's cash is tied up for about 61 days on that basis.

Sources: accounts filed at Companies House, as listed on page 19; Altman, Hartzell and Peck (1995); Altman (2000). Fictional example data.

Illustrative example · 5 November 2026

8. Quality of the accounts

Good accounts are complete, explained, consistent from year to year, fully disclosed, on time and independently checked. Lenders, investors, buyers and credit agencies rely on them, and so do you when you set prices, pay dividends or decide what to spend. On the public record, Fenwick's accounts score amber: lawful, but they leave a reader with questions.

Test	Green / amber / red	Fenwick
1. Profit and loss account	Filed / prepared but not filed, which small companies may do / not prepared	🟡 Not filed, so turnover and profit are not public
2. Large balances explained	All explained / small items unexplained / large balances unexplained	🟢 £26k of other debtors with no explanation, 1% of total assets
3. Figures consistent between filings	Agree / differences under 5% of the balance / 5% or more and not explained	🟢 Agree
4. Required disclosures present	All present / a minor gap / a material item missing	🟢 All present
5. Balances between the companies agree	Agree, with the other company named / agree, without the other company named / do not agree	🟢 No related company in the report
6. On time	Filed well before the deadline / on time, but in the last days / any filing overdue	🟢 Filed about three months before the deadline each year
7. Independently checked	Audit or independent review / audit exempt / no accountant involved, or a qualified opinion	🟡 Audit exempt, as most small companies are. No independent review
Overall	**Red if any of tests 2 to 5 is red, or if two or more of the others are red**	🟡 **Amber**

All seven tests use the public record [P]. The thresholds are my rules of thumb, built from the Companies Act, FRS 102 and what lenders, investors and credit agencies look for.

Illustrative example · 3 November 2026

WHAT THE TESTS SHOW

- **Large balances are unexplained.** £26k of Fenwick's other debtors (1% of its total assets) have no explanation in the accounts. A reader cannot tell whether they are money owed by customers, loans or something else.
- **No profit and loss account is filed.** Small companies may leave it out, but lenders, investors and credit agencies then have no turnover or profit to work from, so they fall back on cautious assumptions.

> **To take up with your accountant.** These findings come from the public record only. There may be good reasons for each of them, but the accounts should explain them.

9. Quality of the accounts: why it matters and how to fix it

Poor accounts are more than a compliance point. They cost money in four ways.

FOR YOU, RUNNING THE COMPANY

Without monthly figures you cannot see margins by product or customer, how much cash each company needs, or whether a dividend is covered. Directors must keep records that show the financial position at any time with reasonable accuracy (Companies Act 2006, section 386), and failing to do so is an offence (section 387). Dividends can only be paid out of distributable profits, judged from the accounts (sections 830 and 836).

FOR LENDERS

A lender prices what it can check. Unexplained balances, undisclosed guarantees and undocumented loans between companies lead to higher interest margins, more security, personal guarantees, lower limits or a decline. A study of US private companies found that those with audited accounts paid about 0.7 percentage points less interest (Minnis, 2011).

FOR INVESTORS AND BUYERS

Every unexplained balance becomes a due diligence question, and often a cut in price: a lower multiple, money held back in escrow, extra warranties and a slower deal. In Axial's 2025 survey of failed lower mid-market deals, about a quarter fell through on due diligence findings, and about a fifth on gaps between reported and checked earnings.

FOR CREDIT AGENCIES AND SUPPLIERS

Credit scores and trade credit limits are set largely from the filed accounts. No profit and loss account, unexplained balances and late filing tend to mean lower limits and more checks, and suppliers and customers see the same scores.

HOW TO FIX IT

When	What	Who
Next 2 weeks	Explain the other debtors of the company, by counterparty and type	David
From January 2027	A monthly close on cloud bookkeeping software: bank, debtors, creditors, VAT, payroll and intercompany balances reconciled, and management accounts within 15 working days	Bookkeeper prepares; David reviews
2026 accounts	Fix the disclosure gaps and explain or correct any comparatives that changed. Add the disclosures small companies must make from 2026: related parties, guarantees and dividends. File the profit and loss account, which is still optional, and file early	Accountant
12 to 24 months before raising money or selling	An independent review or an audit, so investors and buyers can rely on the figures	Accountant

Help to Grow: Management. A government-backed course for the senior managers of SMEs. It is training, not a grant or a loan. It runs for 12 weeks, about 50 hours, mostly online, with four half-day sessions in person at an accredited business school. It covers strategy, marketing, people, operations and finance, including a module on finance and financial management, with up to 10 hours of one-to-one mentoring. It costs £750 a person, and the government pays the other 90%. A business needs 5 to 249 employees and at least a year of trading; with 10 or more staff, Fenwick can send two leaders. The official evaluation (Department for Business and Trade, June 2026) found that taking part helped businesses survive and manage their cash flow better (recommendation 7).

The quickest wins cost little: explain the other debtors, document the balances between the companies and the guarantees, and fix the disclosure gaps. Together they answer most of the first questions a lender or investor would ask, and the next accounts can then show the improvement on the public record (recommendations 1, 3 and 6).

Sources: Companies Act 2006, sections 386 to 388 (accounting records), 830 and 836 (dividends); Small Companies and Groups (Accounts and Directors' Report) Regulations 2008, Schedule 1, paragraph 57 (guarantees and commitments); FRS 102 Section 1A and paragraphs 10.21 to 10.23 (prior period errors), Financial Reporting Council, as amended for periods from 1 January 2026; Minnis, M. (2011), The value of financial statement verification in debt financing: evidence from private U.S. firms, Journal of Accounting Research; Axial (2025), survey of failed lower mid-market deals; Small Business Charter, Help to Grow: Management course FAQs (read 4 November 2026); Department for Business and Trade and Ipsos, Help to Grow: Management evaluation (June 2026).

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10. Net debt, debt-like items and normal working capital

A buyer or lender does not stop at bank debt. It adds anything that will have to be paid out of the business and is not part of normal trading: funding from related companies, tax owed and customer money held in advance. On that wider measure the company carries more than its bank debt of £330k suggests.

31 December 2025, £	Fenwick	How a buyer treats it
Debt and debt-like items		
Bank loans, overdrafts and leases	£329,800	Debt
Funding from group and related companies	£26,100	Debt, unless documented as long-term support
Corporation tax owed	£98,100	Debt-like
Debt and debt-like items	**£454,000**	
Less cash	(£700,000)	Deducted
Net debt and debt-like items	**(£246,000)**	
Items a buyer will ask about		
Deferred tax and provisions	£114,600	Deferred tax is usually not adjusted in the price; other provisions, such as dilapidations or warranties, may be debt-like (ICAEW Guideline 64)
Accruals and deferred income	£86,400	Debt-like to the extent it is customer deposits
Taxes and social security (VAT, PAYE)	£136,200	Working capital if paid on time; debt-like if overdue
Other creditors not explained	nil	Debt-like until explained
Owed by related companies	nil	Reduces debt only if repaid in cash before a deal

- **Fenwick's net debt and debt-like items are (£246k), −15% of its net assets.** Its cash is larger than its debt and debt-like items.
- **Every pound of net debt comes off the price pound for pound**, so documenting the related-company funding as long-term support, or settling it, matters as much for value as for credit.

NORMAL WORKING CAPITAL

A buyer agrees a normal level of working capital to be left in the business: stock, trade debtors and prepayments, less trade creditors, accruals and deferred income, and VAT and PAYE owed. If the business is handed over with less, the price falls by the shortfall. On year-end figures:

Net working capital, £	2021	2022	2023	2024	2025	Average
Fenwick	£365k	£433k	£497k	£519k	£548k	£472k

- Fenwick's net working capital at 31 December 2025 was £548k, £75k above its five-year average of £472k. At a normal level set from that average, the difference would add to the price. Most of it is stock, and a buyer pays for stock above the normal level only if it is likely to sell.

Classification follows common UK practice in financial due diligence (ICAEW Corporate Finance Faculty, Best-Practice Guideline 64, completion mechanisms); individual buyers vary. Accruals and deferred income are in net working capital; if a buyer treats the customer deposits in them as debt-like, they come out of working capital and go into net debt, never both. Deferred income is money customers have paid before the work is done, also called deferred revenue. Buyers usually set the normal level from 12 to 24 months of month-end balances; year ends are shown here. P filed accounts; the treatment is my reading E. Fictional example data.

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11. Risks

Most of the biggest risks are about how much rests on one customer and on David Fenwick. The register below ranks them by what the public record shows. The forecast tests them in numbers, and the eight that do most harm to cash are in my working papers.

Risk	Company	Likelihood	Impact	Early warning	What to do
Metal and subcontract prices rise faster than prices	Fenwick	Medium	Medium	Stockholder price notices; margins falling	Price-review clauses in the long-term agreements
Customer A's engine programme is delayed or resourced elsewhere	Fenwick	Low	High	Schedule changes; fewer releases against the agreement	Win two more aerospace part numbers a year; keep Customer A under 35% of sales
Loss of a large customer or partner	Fenwick	Medium	High	Large contracts up for renewal; orders slowing	Keep any one customer under a quarter of sales; review the top 10 each quarter
Too much rests on one person	Fenwick	High	High	David Fenwick signs every set of accounts and is the only bank signatory	Second signatory; written processes
The AS9100 aerospace approval is lost or suspended at an audit	Fenwick	Low	High	Major findings at the yearly surveillance audit; customer quality complaints	Train a deputy quality manager; close audit findings within the deadline

REVERSE STRESS TEST: WHAT WOULD BREAK THE COMPANY?

A reverse stress test starts from failure and works back. The question is what would have to happen for the company to run out of cash in 2027. From the balance sheets, the most likely combination is:

1. Customer A cuts its orders by a third, as it did briefly in 2020;
2. metal prices rise 10% with prices fixed for a year;
3. and a large machine is out of action for two months.

The forecast puts numbers on it. With every month's sales lower by the same share, Fenwick would run out of cash after a fall of 19.7%. The worst single scenario takes Fenwick to £300k, which a committed facility of about £100k would cover.

> **Likelihood and impact** are my judgement from the public record. Ratings reviewed for Fenwick on 3 November 2026.

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12. What a lender or buyer will ask next

A buyer would ask first about Customer A, which takes 40% of sales, and about who runs the business after David Fenwick. The records are tidy, but neither answer is written down today.

Topic	What the public record shows	What a lender or buyer will look for	Status
Customer concentration	The website names aerospace, defence and medical customers; one aerospace tier-one supplier takes 40% of sales under a long-term agreement	The top 10 customers' share of sales over three years, and contracts with notice periods. Any customer above a quarter of sales is a concern	Red
Suppliers and terms	Trade creditors of £384k (Fenwick) at December 2025. Bar stock from two UK metal stockholders; anodising and heat treatment from three local subcontractors	Main suppliers, terms and currency, and any supplier that would be hard to replace	Green
Key people and succession	David Fenwick owns 100% and signs every set of accounts; his wife is the only other director, with no day-to-day role	Who runs the business day to day besides the directors, second signatories and a succession plan	Amber
Ownership and governance	David Fenwick is the only person with significant control. The bank's 2016 debenture and the machine finance agreements are all in the file	Loan agreements, guarantees and board minutes for the balances between the companies	Green
Sale or investment readiness	Filing on time; no patents to hold; the factory lease to the owner's pension scheme is signed; dividends are minuted	A clean intercompany position, clear IP title and the dividend history	Green
ESG and digital: only items that move cash	UK CBAM from 1 January 2027 does not apply: the bar is bought from UK stockholders, not imported. WEEE and packaging EPR do not apply at Fenwick's size	Import volumes by material, packaging tonnage, and products with electrical parts	Green

Status: green, ready; amber, needs work before a lender or buyer looks; red, a problem they would price in.

> **Why it matters.** A buyer pays less, and a lender asks for more security, when these points are open. All of them can be closed with documents the companies already have or can draw up with their accountant and solicitor.

Sources: Companies House register (officers, persons with significant control, charges) and accounts filed at Companies House, read 3 November 2026. Fictional example data.

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APPENDIX

Definitions and sources

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13. Definitions and sources

DEFINITIONS

Net assets: total assets less total liabilities. **Current ratio**: current assets divided by creditors due within one year. **Quick ratio**: the same, leaving out stock. **Profit retained**: the change in the profit and loss reserve, which is profit after tax less dividends. **Minimum, from retained profit**: a return measured from the change in net assets, which leaves out any dividends, so the true return is at least this. **Return on equity (change in equity)**: the change in net assets in the year divided by net assets at the start of the year. **Best estimate, from the tax owed**: return on equity or invested capital using the profit after tax worked back from the corporation tax owed at the year end, which is before dividends. **Cash bridge**: a short monthly table that starts with profit and ends with the change in the bank balance, showing each step between: debtors, stock, creditors, customer deposits, tax, equipment and money lent to or from related companies. **Estimated profit after tax**: the change in equity plus dividends paid, less new shares issued, plus shares bought back. **Return on invested capital (ROIC)**: the profit measure divided by capital invested at the start of the year, measured as equity plus debt (including loans from group and related companies) less cash. **Capital in the company's own business**: capital invested less amounts lent to related and group companies. **Return on own-business capital**: the same profit measure divided by this capital, so it shows how the trading business does before any lending. **Free cash flow to the firm**: the profit measure, less the increase in working capital and in net fixed assets (capital spending less depreciation), before bank loans and money lent to or from related companies. Small-company accounts do not show interest, so it is after any interest paid. On the minimum basis, from retained profit, it is also after any dividends, because they sit inside the change in net assets. **Cash return on invested capital**: free cash flow divided by the capital in the company's own business at the start of the year. **Cost of equity**: the return a shareholder needs for the risk of owning the business. **Cost of capital (WACC)**: the return needed on all the money in the business, from shareholders and lenders together. **Asset beta**: how much a sector's shares move with the stock market, with the effect of borrowing taken out. **Equity risk premium**: the extra return investors expect from shares over government bonds. **Small-company premium**: an extra return for the higher risk of a small private company. **Company-specific premium**: an extra return for risks particular to one company, such as reliance on its owners or on related-company funding. **Winsorised**: extreme values pulled in to the 1st and 99th percentiles before a median is taken. **Google Trends index**: search interest relative to the busiest week for that term in that country over the period (100). It does not count searches.

Scorecard thresholds: my rules of thumb for a small private company, set against what UK credit agencies and lenders weigh, giving the green, amber and red band for each measure; grey means the data to score it is not yet in hand. **Scorecard overrides**: an insolvency notice in the last 24 months, a going-concern material uncertainty or accounts overdue turn a company's whole scorecard red. **Net borrowing ÷ EBITDA**: bank debt, leases and related-company funding less cash, divided by the underlying EBITDA a cautious lender accepts. **Debt service cover**: cash available after tax and capital spending, divided by the loan repayments and interest due in the year. **County Court Judgment (CCJ)**: a court order to pay a debt, kept on the Registry Trust register for six years unless paid within a month. **Business-in-difficulty test**: for a limited company, accumulated losses above half the share capital; it can block government-backed lending such as the Growth Guarantee Scheme. **Transferability**: whether the business would keep its customers and keep running without one person: the largest customer's share of sales, the top three's share, and dependence on the owner or another key person. **P, E and M**: the basis of each figure or assumption: P public record, E my estimate, M management (the company's own records or plans). **Quality of earnings**: how much of the profit is real, recurring and turns into cash; six tests from the public record and one from the forecast (page 9). **Accruals ratio**: the increase in working capital and other debtors divided by average total assets, a balance-sheet measure of profit not backed by cash (Sloan, 1996). **Quality of the accounts**: seven tests from the public record: profit and loss account, balances explained, figures consistent between filings, required disclosures, balances between the companies, timeliness and independent check (page 13). **Dividends worked back from the tax owed**: profit after tax implied by the year-end corporation tax, less the change in equity. **Net debt and debt-like items**: bank debt, related-company funding, tax owed and similar claims, less cash; what a buyer deducts from the price (page 15). **Normal working capital**: the level of working capital a buyer expects to be left in the business. **Deferred income**: money received from customers before the work is done or the goods delivered, also called deferred revenue; a buyer is likely to treat customer deposits as debt-like. **Reverse stress test**: the fall in sales, held from the forecast start, that would take cash to nil. **Borrowing**: bank loans and overdrafts, leases and hire purchase, and funding from group and related companies. **Outside creditors**: creditors due within a year, less amounts owed to group and related companies. **Cash conversion**: free cash flow divided by profit, both before dividends; where dividends are not filed, the dividends worked back from the tax owed are added back to both. **Altman Z'' score**: 6.56 × (current assets − creditors due within a year) ÷ total assets + 3.26 × profit and loss reserve ÷ total assets + 6.72 × retained profit ÷ total assets + 1.05 × net assets ÷ total liabilities; above 2.60 safe, 1.10 to 2.60 grey, below 1.10 distress. Altman's model for non-manufacturers, indicative here because it was built on larger companies. **Five Cs of credit**: character, capacity, capital, collateral and conditions, the headings a lender uses to judge a borrower. **Debt capacity (indicative)**: the borrowing that the average retained profit, less capitalised development, would support over 5 years at 1.25x debt service cover and the cost of debt r: (retained profit ÷ 1.25) × (1 − (1 + r)$^{-5}$) ÷ r. **Net working capital**: stock, trade debtors and prepayments, less trade creditors, accruals and deferred income, and VAT and PAYE owed. **Debtor, stock and creditor days**: trade debtors ÷ turnover × 365; stock ÷ cost of sales × 365; trade creditors ÷ cost of sales × 365. **Cash conversion cycle**: debtor days plus stock days less creditor days, the time cash is tied up in trading. **Group complexity**: eight tests from the public record on how many companies sit under common control, the layers of ownership, the balances, guarantees, assets and trading between them, and filing discipline; any red test is red. **Position among peers**: where a company ranks in the peer set on a balance-sheet or per-employee ratio, counted from the better end where there is one. **Indicative value range**: published multiples of EBITDA for small-company deals, applied to underlying EBITDA, less net debt and debt-like items, plus or minus working capital against normal; not a formal valuation. **Enterprise value**: the value of the business before its debt and cash. **Data room**: the folder of documents a buyer's advisers review, opened after a confidentiality agreement.

SOURCES

Company accounts filed at Companies House: Fenwick Precision Ltd (Fictional), years to 31 December 2020 to 2025. Fictional example data: the companies and their figures are invented. Register checks read 3 November 2026.

Peers: fictional examples built for this template.

Cost of capital: OECD long-term interest rates, UK 10-year government bond yield (FRED series IRLTLT01GBM156N), monthly, annual averages computed; read 3 November 2026; Bank of England, Bank Rate history (bankofengland.co.uk/boeapps/database/Bank-Rate.asp), read 3 November 2026; Damodaran, Country default spreads and risk premiums, updated 5 January 2026; Damodaran, Betas by sector (US), data as of January 2026; unlevered beta corrected for cash.

Credit and funding: British Business Bank, Small Business Finance Markets 2025/26, March 2026; Growth Guarantee Scheme (GGS): British Business Bank, Growth Guarantee Scheme page, read 3 November 2026 and British Business Bank GGS data, May 2026; UK Export Finance General Export Facility: UK Export Finance, General Export Facility page, updated 2 October 2026 and British Business Bank, 12 July 2026; Help to Grow: Management: Small Business Charter, Help to Grow: Management course FAQs, read 4 November 2026; Altman, Hartzell and Peck (1995) and Altman (2000), the Z'' model for non-manufacturers; HM Treasury, Commercial Credit Data Sharing review (2024); Department for Business and Trade and Ipsos, Help to Grow: Management evaluation (June 2026).

Quality of earnings and sale: Sloan (1996), The Accounting Review; Minnis (2011), Journal of Accounting Research; Axial (2025), Dead Deal Report; BDO (2025), Valuation Drivers; ICAEW Corporate Finance Faculty, Best-Practice Guideline 64; PitchBook LCD; Bhardwaj, Gupta and Howell (2025), NBER Working Paper 33435; Companies Act 2006, sections 386 to 388, 830 and 836; GOV.UK corporation tax rates and marginal relief.

Market and prices: ONS, Producer price inflation, UK: September 2026, released 21 October 2026 (next 18 November 2026); ONS, Average weekly earnings in Great Britain, released 20 October 2026 (June to August 2026); DESNZ, Quarterly Energy Prices September 2026, published 29 September 2026; Drewry World Container Index, 29 October 2026 and 30 October 2025; GOV.UK / Low Pay Commission, October 2026; GOV.UK, Rates for the carbon border adjustment mechanism (CBAM), first published 16 October 2026; ECB euro reference rates, monthly averages; GBP/EUR = 1/(GBP per EUR), GBP/USD = (USD per EUR)/(GBP per EUR); read 3 November 2026. Dealsuite UK & Ireland M&A Monitor (August 2026); Damodaran, betas by sector (January 2026); Insolvency Service business insolvency demography (2026). The customers, suppliers and peers are fictional.

Checks: every balance sheet balances and every note agrees to its balance sheet line; every rebuilt cash flow agrees to the change in cash to the pound.

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