# Summit Mechanical Systems, Inc.

Commercial HVAC Contractor — New Construction & Service
NAICS 238220 — Plumbing, Heating, and Air-Conditioning Contractors

**Effective Date of Valuation: June 01, 2025**

| | |
|---|---|
| **Purpose:** | Estate & Succession Planning — Baseline valuation for attorney and financial advisor |
| **Standard of Value:** | Fair Market Value |
| **Premise of Value:** | Going Concern |
| **Interest Valued:** | 100% Controlling Interest |
| **Intended User:** | Owner, estate planning attorney, and financial advisor |

Generated by
**VEM Logic AI Engine**
Valuation Equity Metrics, LLC

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# Assumptions & Limiting Conditions

This Calculation of Value report is subject to the following assumptions and limiting conditions:

■ In performing this analysis, we used various financial and other information provided by the client or its representatives, and relied on the accuracy and completeness of this information. We have not been engaged to compile, review, examine, or audit such information in accordance with standards established by the American Institute of Certified Public Accountants. Accordingly, we do not express an opinion or any other form of assurance thereon.

■ Public information and industry and statistical information have been obtained from sources we believe to be reliable, including RMA Annual Statement Studies, Kroll Cost of Capital Navigator, DealStats, IBBA Market Pulse, BizBuySell, and Damodaran Online. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.

■ This report is intended solely for the use of the client and the intended user identified herein (Owner, estate planning attorney, and financial advisor). This report is not intended to be, and should not be, used by anyone other than the specified parties, and should not be referred to or distributed, in whole or in part, without the prior written consent of Valuation Equity Metrics, LLC.

■ This engagement was conducted in accordance with the Statement on Standards for Valuation Services (SSVS) No. 1 issued by the American Institute of Certified Public Accountants (AICPA) and is classified as a Calculation Engagement. A Calculation Engagement does not include all of the procedures required in a Valuation Engagement (full appraisal) or a Conclusion of Value engagement.

■ This report is not a certified appraisal under the Uniform Standards of Professional Appraisal Practice (USPAP). It is not intended for use in connection with IRS tax compliance, estate or gift tax filings, Section 409A valuations, litigation, or divorce proceedings.

■ For the purpose of this engagement and report, we make no investigation of, and assume no responsibility for, the titles to, or liabilities against, the assets or equity of the Company, including but not limited to any contingent or environmental liabilities.

■ Our calculation of value assumes the assets and liabilities presented in the Company's financial statements were accurate and complete as of the date provided and were not materially different as of the Valuation Date. Any change in the level of assets or liabilities could cause a change in the value estimated. Furthermore, we assume there are no hidden or unexpected conditions that would adversely affect the value estimated.

■ We do not provide assurance on the achievability of any projected results referenced in this report. Differences between actual and expected results may be material, and achievement of forecasted results is dependent on actions, plans, and assumptions of management.

■ Our calculation of value is applicable for the stated date and purpose only, and may not be appropriate for any other date or purpose. This valuation contemplates facts and conditions known or knowable as of the Valuation Date. Events and conditions occurring after the Valuation Date have not been considered, and we have no obligation to update this report for such events and conditions.

■ The opinions expressed herein are not intended to be investment advice and should in no way be construed as such. Furthermore, this report does not constitute a "fairness opinion" or a "solvency opinion" regarding any contemplated present or future transaction.

■ The VEM Logic AI Engine and its operators have no present or contemplated financial interest in the subject company and have no personal interest with respect to the parties involved. Compensation for this engagement is a flat fee of $999.95 and is not contingent upon the value conclusion, the direction of value, or any subsequent transaction.

■ All financial computations in this report — including SDE normalization, discount rate build-up, income capitalization, market multiple application, asset approach reconciliation, and the weighted conclusion — are derived algorithmically from the source financial data provided by the client. No derived values are manually overridden.

■ By accepting this report, the client acknowledges the assumptions and limiting conditions contained herein and understands that liability for this engagement is limited to the fee paid ($999.95).

## Executive Summary

Valuation Equity Metrics, LLC was engaged to estimate the Fair Market Value of Summit Mechanical Systems, Inc. as of June 01, 2025. The engagement was performed for the purpose of estate & succession planning — baseline valuation for attorney and financial advisor. The subject interest is 100% controlling interest on a going concern basis.

Based on the analysis performed using the Income Approach, Market Approach, and Asset Approach, the concluded **Asset Sale Value** of Summit Mechanical Systems, Inc. is **$2,304,243**, within a reasonable range of $2,074,000 to $2,535,000.

| ASSET SALE VALUE | EQUITY VALUE | ENTERPRISE VALUE |
|---|---|---|
| $2,304,243 | $2,324,243 | $2,499,243 |

| Value Basis | Concluded Value | Primary Use Case |
|---|---|---|
| Asset Sale Value | $2,304,243 | Business purchase/sale; SBA acquisition financing |
| Equity Value | $2,324,243 | Stock sale; buy-sell agreements; estate planning |
| Enterprise Value | $2,499,243 | M&A; analysis; capital structure comparison |
| Liquidation Value | $1,027,000 | Distress/insolvency scenarios; collateral floor |

# Engagement Overview & Standards of Value

| | |
|---|---|
| **Company Name** | Summit Mechanical Systems, Inc. |
| **NAICS Code** | 238220 — Plumbing, Heating, and Air-Conditioning Contractors |
| **Legal Structure** | S-Corporation |
| **State of Formation** | Colorado |
| **Fiscal Year End** | December 31 |
| **Effective Date of Valuation** | June 01, 2025 |
| **Report Date** | June 15, 2025 |
| **Purpose of Engagement** | Estate & Succession Planning — Baseline valuation for attorney and financial advisor |
| **Standard of Value** | Fair Market Value |
| **Premise of Value** | Going Concern |
| **Interest Valued** | 100% Controlling Interest |
| **Intended User** | Owner, estate planning attorney, and financial advisor |
| **Generated By** | VEM Logic AI Engine |
| **Platform** | Valuation Equity Metrics, LLC |

**Fair Market Value** is defined as "the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts." (Revenue Ruling 59-60, 1959-1 C.B. 237; Treasury Regs. §20.2031-1(b) and §25.2512-1)

## Factors Considered (Revenue Ruling 59-60)

In accordance with Revenue Ruling 59-60, the following factors were considered in this analysis. These factors form the foundation for determining the Fair Market Value of a closely-held business:

| # | Factor | How Addressed |
|---|---|---|
| 1 | The nature of the business and the history of the enterprise from its inception. | Addressed in Section 4, Business Overview. |
| 2 | The economic outlook in general and the condition and outlook of the specific industry. | Addressed in Section 5, Industry & Economic Analysis. |
| 3 | The book value of the stock and the financial condition of the business. | Addressed in Section 6, Financial Analysis & Normalization. |
| 4 | The earning capacity of the company. | Addressed in Sections 6 and 7, through SDE/EBITDA normalization and the Income Approach. |
| 5 | The dividend-paying capacity of the company. | Considered in context of owner compensation and free cash flow analysis. |

| | | |
|---|---|---|
| 6 | Whether or not the enterprise has goodwill or other intangible value. | Addressed through the excess earnings implied by the Income and Market Approaches. |
| 7 | Sales of the stock and the size of the block of stock to be valued. | Addressed in the Minority Interest & Discount Analysis where applicable. |
| 8 | The market price of stocks of corporations engaged in the same or a similar line of business. | Addressed in Section 7.2, Market Approach — Guideline Transaction Method. |

# Business Overview

## Company Background

Summit Mechanical Systems, Inc. ("the Company" or "Summit") is a commercial HVAC contractor headquartered in Denver, Colorado. Founded in 2007, the Company specializes in mechanical systems design, installation, and service for commercial new construction and tenant improvement projects along Colorado's Front Range corridor from Fort Collins to Colorado Springs.

The Company operates as an S-Corporation with 100% ownership held by the founder (age 54), who serves as president and primary estimator. The owner has no immediate exit plans but is establishing a baseline valuation for estate planning discussions with his attorney and to track enterprise value growth over time. The Company employs 42 full-time personnel including 12 licensed HVAC technicians, 8 journeyman pipefitters, 6 apprentices, 4 project managers, and administrative staff.

In Q4 2024, the Company secured a landmark 3-year facilities maintenance contract with UCHealth (a major hospital system) valued at approximately $600,000 per year. This contract represents the Company's first significant recurring revenue stream and marks a strategic pivot toward service and maintenance revenue to complement the project-based new construction business.

## Services & Revenue Model

Revenue is generated through three channels: commercial new construction (58% of revenue, approximately $3.54M), tenant improvement and retrofit projects (24%, approximately $1.46M), and service and maintenance contracts (18%, approximately $1.10M including the new UCHealth contract). New construction revenue is project-based with typical contract values of $150,000 to $1.2M and project durations of 3-14 months. Gross margins vary by channel: new construction 18-22%, tenant improvement 25-30%, and service/maintenance 42-48%. The Company holds mechanical contractor licenses in Colorado, Wyoming, and New Mexico, and maintains bonding capacity of $4.5M per project and $12M aggregate through its surety relationship.

## Competitive Position

The Denver commercial HVAC market is competitive with approximately 180 licensed mechanical contractors along the Front Range. Summit competes primarily in the mid-market segment ($150K-$1.2M contract value), which is too large for residential HVAC contractors but below the threshold targeted by national mechanical firms (Comfort Systems, EMCOR). The Company's competitive advantages include its 18-year track record with general contractors, $4.5M bonding capacity (a significant barrier to entry), established relationships with 8 general contractors who provide approximately 70% of project pipeline, and the newly secured hospital maintenance contract that provides revenue stability and referral credibility.

## Key Risk Factors

**Project-Based Revenue Cyclicality:** 58% of revenue derives from commercial new construction, which is directly tied to interest rates, commercial real estate development cycles, and local economic conditions. The Denver market has historically experienced significant construction volume swings of 20-35% between peak and trough years.

**Owner as Primary Estimator:** The owner personally estimates and bids approximately 75% of new construction projects. Estimating accuracy is the single most critical skill in mechanical contracting — a 2-3% miss on a $1M project eliminates the profit margin. No other employee has been trained in this function.

**Skilled Labor Shortage:** Licensed HVAC technicians and journeyman pipefitters remain in critical shortage along the Front Range. The Company's 12 technicians represent its core productive capacity. Losing 2-3 key technicians would directly impact the Company's ability to fulfill existing contracts and pursue new work.

**General Contractor Concentration:** Approximately 70% of the new construction pipeline is sourced through relationships with 8 general contractors. The loss of a relationship with any top-3 GC would reduce pipeline by 15-25%.

**Bonding Capacity Dependency:** The Company's $4.5M per-project bonding capacity is a competitive advantage but is subject to annual renewal based on financial condition, work-in-progress, and owner personal guarantees. A deterioration in financial metrics could result in reduced bonding capacity, limiting the Company's ability to bid larger projects.

**Workers Compensation & Safety Exposure:** Commercial HVAC installation involves elevated work, heavy lifting, and brazing operations. The Company's experience modification rate (EMR) of 0.88 is favorable, but a serious jobsite incident could increase insurance costs and affect bonding capacity.

# Industry & Economic Analysis

## Economic Conditions

As of mid-2025, the Denver-Aurora-Lakewood metropolitan area continues to experience moderate commercial construction activity. While office construction has slowed due to remote work trends, healthcare, education, and multifamily projects remain strong. The Colorado Construction Index indicates a 4.2% increase in commercial construction starts year-over-year. Interest rates remain elevated, which has dampened speculative commercial development but has had limited impact on institutional projects (hospitals, schools, government). Labor costs for skilled trades have increased 6-8% annually, compressing contractor margins.

## Industry Outlook

The HVAC contracting industry (NAICS 238220) is a $185 billion national sector with strong long-term fundamentals driven by aging building stock, energy efficiency mandates, and the ongoing shift to heat pump technology. The industry is highly fragmented — the top 100 firms control less than 10% of the market. M&A; activity is accelerating as private equity groups and national platforms (Comfort Systems USA, EMCOR, APi Group) pursue roll-up strategies, acquiring regional contractors in the $5M-$20M revenue range. Contractors with diversified revenue (mix of project and service/maintenance) and strong bonding capacity command premium multiples.

## Industry Benchmarks

| Metric | Value | Source |
|---|---|---|
| Pretax Profit Margin | 4.8% | RMA Annual Statement Studies |
| Cash Flow to Revenue | 9.5% | RMA / BizEquity |
| Receivables Conversion | 58.0 days | RMA Annual Statement Studies |
| Fixed Asset Turnover | 6.80x | RMA Annual Statement Studies |
| Debt-to-Equity Ratio | 165.0% | RMA Annual Statement Studies |
| Median SDE Multiple | 2.0x - 3.0x | DealStats / IBBA Market Pulse |
| Median Revenue Multiple | 0.25x - 0.50x | DealStats / BizBuySell |
| Median EBITDA Multiple | 3.5x - 5.5x | DealStats / BizBuySell |

# Financial Analysis & Normalization

## Historical Income Summary

| Line Item | 2022 | 2023 | 2024 |
|---|---|---|---|
| **Revenue** | $5,180,000 | $5,640,000 | $6,105,000 |
| **YoY Growth** | — | 8.88% | 8.24% |
| **Pretax Income** | $248,000 | $298,000 | $355,000 |
| **Officer Compensation** | $185,000 | $195,000 | $210,000 |
| **Interest Expense** | $42,000 | $38,000 | $35,000 |
| **Depreciation & Amort.** | $118,000 | $125,000 | $132,000 |

*[a] Source: Financial data as reported by Company management. VEM Logic has not audited or independently verified this information.*

## Balance Sheet Summary

| | As of December 31, 2024 |
|---|---|
| **ASSETS** | |
| Cash & Equivalents | $245,000 |
| Accounts Receivable | $680,000 |
| Inventory | $85,000 |
| Other Current Assets | $62,000 |
| **Total Current Assets** | **$1,072,000** |
| Fixed Assets (Net) | $890,000 |
| **Total Assets** | **$1,962,000** |
| **LIABILITIES** | |
| Current Liabilities | $485,000 |
| Bank Loans (LT) | $420,000 |
| **Total Liabilities** | **$905,000** |
| **NET BOOK EQUITY** | **$1,057,000** |

## Normalization Schedule — Seller's Discretionary Earnings

The following schedule presents the normalization of reported pretax income for fiscal year 2024 to arrive at Seller's Discretionary Earnings (SDE), which represents the total economic benefit to a single owner-operator. Normalization adjustments remove non-recurring items, discretionary owner expenses, and non-operating income/expenses to reveal the true earning power of the business.

| Line Item | Amount | Explanation |
|---|---|---|
| Reported Pretax Income | $355,000 | |
| ADD: Officer Compensation | $210,000 | Owner salary, bonus, and S-Corp distributions classified as compensation; added back to normalize for single-owner operation |
| ADD: Interest Expense | $35,000 | Equipment financing and line of credit interest; financing structure is buyer-specific |
| ADD: Depreciation & Amortization | $132,000 | Non-cash expense reflecting depreciation on service vehicle fleet (22 vehicles), HVAC equipment, shop tools, and office buildout |
| ADD: Owner Vehicle & Personal Expenses | $22,000 | Personal vehicle lease, fuel, and insurance run through the business |
| ADD: Owner Life Insurance Premium | $18,000 | Key-man life insurance policy premium benefiting the owner's estate; not a business operating expense |
| ADD: Non-Recurring Legal Fees | $28,000 | One-time legal fees for UCHealth contract negotiation and employment dispute settlement in Q2 2024 |
| LESS: Estimated Market-Rate GM Salary | ($45,000) | The owner performs both CEO and general manager functions; a replacement GM would cost approximately $95K-$110K. Adjustment normalizes for the incremental cost of replacing the owner's operational role |
| **Concluded SDE** | **$755,000** | |
| **Concluded EBITDA** | **$545,000** | SDE less Officer Compensation |

*[a] Prior Year SDE (FY2023): $710,000*

*[b] Weighted Average SDE: $725,000*

*Source: Normalization adjustments based on financial data provided by Company management. Add-backs reflect standard SDE normalization methodology per IBBA/IBA guidelines for owner-operated businesses.*

# Income Approach — Capitalization of Earnings

The Income Approach estimates value by capitalizing the Company's normalized earnings stream at a rate that reflects the risk associated with those earnings. The capitalization rate is built up from observable market data.

## Discount Rate Build-Up

| Component | Rate | Source |
|---|---|---|
| Risk-Free Rate (20-yr Treasury) | 4.50% | U.S. Treasury 20-year bond yield as of valuation date |
| Equity Risk Premium | 5.50% | Kroll Cost of Capital Navigator, Q1 2025 |
| Size Premium (Micro-Cap) | 5.60% | Kroll CRSP Decile Size Study, 10th decile |
| Industry Risk Adjustment | 1.45% | Kroll industry risk premium — specialty trade contractors (above-average cyclicality, project-based revenue) |
| Company-Specific Risk Premium | 7.00% | Composite of entity-specific risk factors (see below) |
| **Total Discount Rate** | **24.05%** | |
| Less: Long-Term Growth Rate | (3.00%) | |
| **Capitalization Rate** | **21.05%** | |

*[a] Risk-free rate based on 20-year U.S. Treasury yield. Equity risk premium and size premium per Kroll Cost of Capital Navigator. Industry adjustment per Damodaran Online. Company-specific risk premium reflects analyst assessment of entity-specific risk factors.*

## Company-Specific Risk Premium Breakdown

| Risk Factor | Premium |
|---|---|
| Owner as Primary Estimator | 2.50% |
| Project Revenue Cyclicality | 1.50% |
| GC Relationship Concentration | 1.00% |
| Skilled Labor Retention Risk | 1.00% |
| Bonding Capacity Dependency | 0.50% |
| Recurring Revenue Offset (UCHealth) | -1.00% |
| Workers Comp / Safety Exposure | 0.50% |
| Strong Backlog & Pipeline Visibility | -0.50% |
| Fleet & Equipment Maintenance Burden | 0.50% |
| Geographic Concentration (Front Range) | 1.00% |

| Total CSRP | 7.00% |
|---|---|

## Income Approach Value Indication

| | |
|---|---|
| Normalized SDE | $755,000 |
| Capitalization Rate | 21.05% |
| Gross Value Indication | $3,586,698 |
| Less: DLOM (15.00%) | ($538,005) |
| **Adjusted Value (Income Approach)** | **$3,048,694** |

## Market Approach — Guideline Transaction Method

The Market Approach estimates value by comparing the subject company to similar businesses that have been sold. Transaction data was sourced from DealStats, IBBA Market Pulse, and BizBuySell, filtered for businesses with revenue in the $4M - $10M revenue range over the prior 36 months.

| Multiple Type | Low | Median | High | Selected | Value Indication | Weight |
|---|---|---|---|---|---|---|
| SDE Multiple | 2.00x | 2.50x | 3.20x | 2.40x | $1,812,000 | 40% |
| Revenue Multiple | 0.25x | 0.38x | 0.55x | 0.34x | $2,075,700 | 25% |
| EBITDA Multiple | 3.50x | 4.50x | 6.00x | 4.20x | $2,289,000 | 35% |
| **Weighted Market Indication** | | | | | **$2,044,875** | |

*[a] Source: Transaction data from DealStats, IBBA Market Pulse, and BizBuySell. Multiples filtered for NAICS 238220 businesses in the $4M - $10M revenue revenue range, 36 months lookback. Selected multiples reflect subject company positioning within the transaction set.*

## Asset Approach — Adjusted Net Asset Value

The Asset Approach estimates value by adjusting the Company's balance sheet assets and liabilities to their fair market values. This approach establishes a floor value and captures the tangible asset base of the business.

| Item | Amount |
|---|---|
| Cash & Equivalents | $245,000 |
| Accounts Receivable | $680,000 |
| Inventory (HVAC Parts & Materials) | $85,000 |
| Service Vehicle Fleet — 22 Vehicles (FMV) | $485,000 |
| HVAC Equipment & Specialized Tools (FMV) | $310,000 |
| Shop & Office Equipment (FMV) | $65,000 |
| Other Current Assets | $62,000 |
| Total Tangible Assets (FMV) | $1,932,000 |
| Less: Total Liabilities | ($905,000) |
| Adjusted Tangible NAV | $1,027,000 |
| Plus: Estimated Intangible Value (Intangible value of $650,000 reflects the Company's established GC relationships, $4.5M bor | $650,000 |
| **Asset Approach Value Indication** | **$1,677,000** |

*[a] Tangible asset values based on book value as reported by Company management. Machinery and equipment adjusted per industry fair market value estimates where applicable. No independent appraisal of individual assets has been performed.*

# Valuation Conclusion

The following table presents the weighted reconciliation of the three valuation approaches to arrive at the concluded value. Weight was assigned to each approach in accordance with the appropriateness, accuracy, and quantity of evidence associated with each valuation method applied.

## Reconciliation of Valuation Approaches

| Approach | Value Indication | Weight | Weighted Value | Rationale |
|---|---|---|---|---|
| Income Approach | $3,048,694 | 35% | $1,067,043 | Meaningful indicator but tempered by the cyclical nature of construction revenue and the concentration of estimating expertise in the owner. The emerging recurring revenue stream (UCHealth) strengthens this approach going forward. |
| Market Approach | $2,044,875 | 40% | $817,950 | Primary indicator given active M&A; market for HVAC contractors in the $5M-$20M range. Platform acquirers (Comfort Systems, EMCOR, PE-backed groups) are actively pursuing regional contractors with established bonding and workforce. |
| Asset Approach | $1,677,000 | 25% | $419,250 | More relevant for construction firms due to significant tangible asset base (vehicle fleet, equipment, receivables). The fleet and equipment represent real, liquidatable value that establishes a meaningful floor. |
| **Concluded Asset** | **Sale Value** | | **$2,304,243** | |

## Conclusion of Value Bridge

| | Amount |
|---|---|
| **Concluded Weighted Value (Asset Sale)** | **$2,304,243** |
| **Concluded Equity Value** | **$2,324,243** |
| **Concluded Enterprise Value** | **$2,499,243** |
| Orderly Liquidation Value | $1,027,000 |

Based on the analysis performed and as presented in this report, we have determined the concluded Asset Sale Value of the total assets of Summit Mechanical Systems, Inc., as of June 01, 2025, to be:

**TWO MILLION THREE HUNDRED FOUR THOUSAND TWO HUNDRED FORTY-THREE DOLLARS**

**$2,304,243**

* * * * * * *

*Our calculation of value is applicable only for the stated date and purpose and may not be appropriate for any other date or purpose.*

## Complete Value Conclusion Matrix

| Value Basis | Concluded Value | Formula Basis | Primary Use Case |
|---|---|---|---|
| Asset Sale Value | $2,304,243 | Income + Market + Asset weighted | Business purchase/sale; SBA acquisition financing |
| Equity Value | $2,324,243 | Asset Sale + Cash + A/R - Liabilities | Stock sale; buy-sell agreements; estate planning |
| Enterprise Value | $2,499,243 | Equity Value + LT Debt - Cash | M&A; analysis; capital structure comparison |
| Liquidation Value | $1,027,000 | FMV Tangible Assets - All Liabilities | Distress/insolvency scenarios; collateral floor |

## Value Type: Asset Sale Value

**ASSET SALE VALUE**

**$2,304,243**

### Formula: Weighted Income + Market + Asset Approach Values

Asset Sale Value represents the price a buyer would pay for the operating assets of the business, excluding cash, accounts receivable, and liabilities. This is the most commonly used value in business purchase/sale transactions and SBA-backed acquisitions. The buyer acquires the income-generating asset base and goodwill, while the seller retains cash and collects outstanding receivables.

### Common Use Cases:

- SBA 7(a) Loan — Change of Ownership financing
- Asset purchase agreements (most small business sales)
- Business broker listing price
- Establishing purchase price for goodwill allocation

## Value Type: Equity Value

EQUITY VALUE

**$2,324,243**

**Formula: Asset Sale Value + Cash + Receivables - Total Liabilities**

Equity Value represents the total value available to equity holders (shareholders) after accounting for all assets and all liabilities. This value captures the full ownership stake in the business including working capital items. Equity Value is commonly used when the transaction involves a stock sale rather than an asset sale.

### Common Use Cases:

- Stock sale transactions (buyer acquires shares)
- Buy-sell agreements between partners or shareholders
- Estate and gift tax valuations (IRC §2031)
- Shareholder disputes and divorce proceedings

# Value Type: Enterprise Value

**ENTERPRISE VALUE**

**$2,499,243**

**Formula: Equity Value + Long-Term Debt - Cash**

Enterprise Value (EV) represents the total value of the business to all capital providers — both equity holders and debt holders. It is the theoretical takeover price: what it would cost to buy the entire business, pay off its debt, and take its cash. Enterprise Value is capital-structure neutral, making it the preferred metric for comparing businesses with different debt levels.

## Common Use Cases:

- M&A; analysis and deal structuring
- Capital structure comparisons across companies
- EV/EBITDA multiple benchmarking
- Private equity and strategic acquirer valuations

# Value Type: Liquidation Value

LIQUIDATION VALUE

**$1,027,000**

**Formula: FMV of Tangible Assets - All Liabilities (No Goodwill)**

Liquidation Value represents the estimated net proceeds if the business were to cease operations and sell its tangible assets individually. This value excludes all intangible assets (goodwill, customer relationships, brand value) and serves as the absolute floor value of the business. A negative liquidation value indicates that liabilities exceed the fair market value of tangible assets.

## Common Use Cases:

- Distress and insolvency analysis
- Collateral floor value for lenders
- Worst-case scenario planning
- Asset coverage ratio assessment

## Which Business Value is Most Important?

The appropriate value conclusion depends on the purpose of the valuation and the nature of the transaction. The following guide helps identify which value metric is most relevant for your situation.

| If You Are... | Use This Value | Why |
|---|---|---|
| Buying or selling a business (asset deal) | **Asset Sale Value** | Most common structure; buyer acquires operating assets and goodwill |
| Buying or selling shares/stock | **Equity Value** | Captures full ownership value including working capital |
| Applying for SBA financing | **Asset Sale Value** | SBA SOP requires asset sale value for acquisition loans |
| Comparing acquisition targets | **Enterprise Value** | Capital-structure neutral; apples-to-apples comparison |
| Planning estate or gift transfers | **Equity Value** | IRS requires FMV of equity interest for tax reporting |
| Assessing lender collateral | **Liquidation Value** | Floor value if business ceases operations |
| Structuring a buy-sell agreement | **Equity Value** | Price at which partners can buy or sell interests |
| Negotiating with a strategic acquirer | **Enterprise Value** | Acquirers typically structure offers on EV/EBITDA basis |

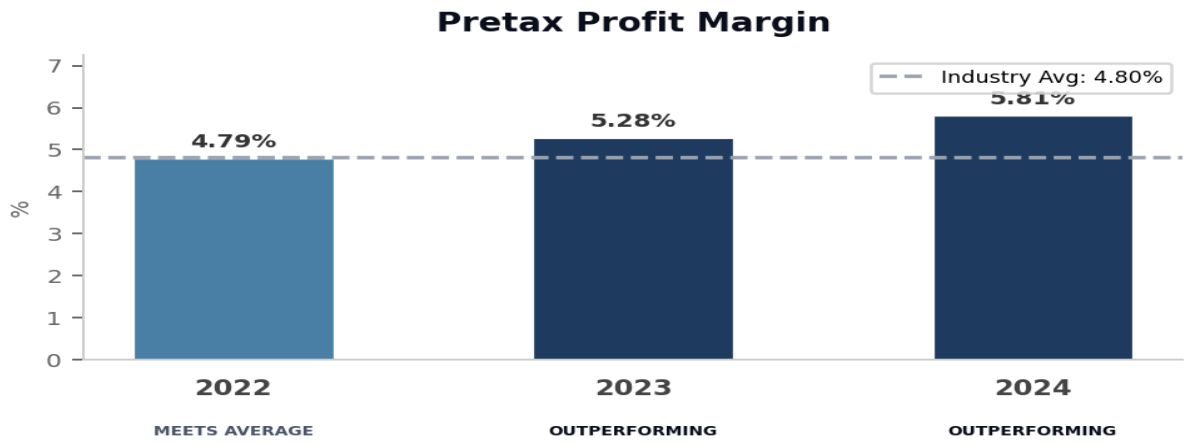
# KPI Scorecard & Value Driver Analysis

**▲ 6 Outperforming** | **= 1 Meets Average** | **▼ 4 Underperforming**

| KPI Metric | Category | Company | Industry Avg | Status |
|---|---|---|---|---|
| Income-to-Revenue (Pretax Margin) | Profitability | 5.81% | 4.80% | ▲ OUTPERFORMING |
| Return on Equity (ROE) | Profitability | 33.58% | 28.00% | ▲ OUTPERFORMING |
| Cash Flow-to-Revenue | Profitability | 12.00% | 9.50% | ▲ OUTPERFORMING |
| Receivables Conversion (Days) | Activity | 41 days | 58.0 days | ▲ OUTPERFORMING |
| Fixed Assets Turnover | Activity | 6.86x | 6.80x | = MEETS AVERAGE |
| Receivables-to-Income | Activity | 191.55% | 160.00% | ▼ UNDERPERFORMING |
| Fixed Assets-to-Income | Activity | 250.70% | 195.00% | ▼ UNDERPERFORMING |
| Cash-to-Debt Ratio | Liquidity | 0.27x | 0.35x | ▼ UNDERPERFORMING |
| Debt-to-Equity | Solvency | 0.86x | 1.65x | ▲ OUTPERFORMING |
| Interest Coverage Ratio | Solvency | 10.14x | 5.20x | ▲ OUTPERFORMING |
| Total Debt-to-Income | Solvency | 254.93% | 210.00% | ▼ UNDERPERFORMING |

# 9 KPI Detail: Pretax Profit Margin

**Category:** Profitability | **Current Status:** ▲ **OUTPERFORMING** | **Company:** 5.81% | **Industry Avg:** 4.80%




### ■ What does it mean?

This ratio measures how much of every revenue dollar flows to pretax profit. For HVAC contractors, margins are thin — a 1% swing on a $1M project can eliminate the entire profit. Accurate estimating and disciplined project management are critical.

### ■ Why should it matter?

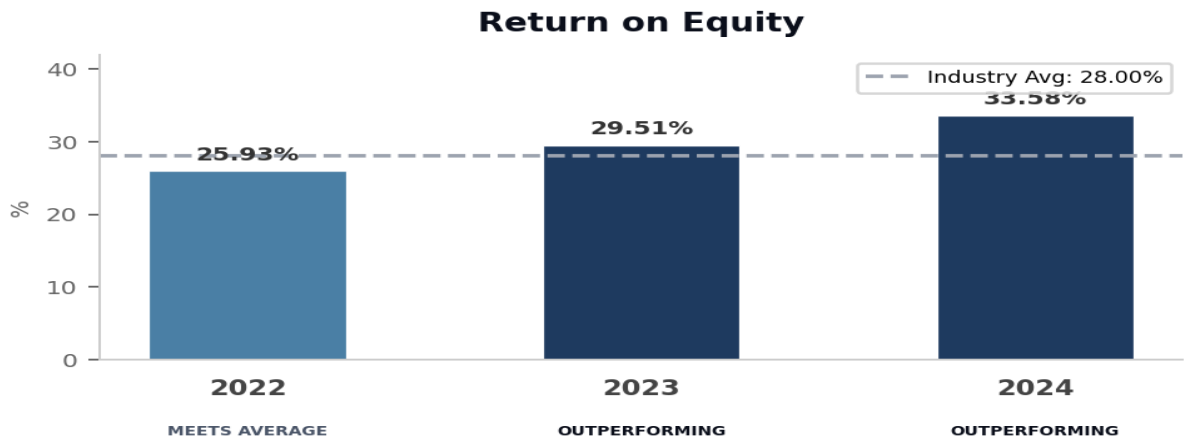
Pretax margin in construction directly reflects estimating accuracy and project execution quality. Consistently outperforming the industry median suggests Summit's estimating and field operations are well-calibrated.

### ■ Give me an example

At 5.81%, Summit exceeds the 4.80% industry median and has improved from 4.79% in 2022. The margin improvement correlates with the growing service/maintenance revenue, which carries 42-48% gross margins versus 18-22% on new construction.

# 9 KPI Detail: Return on Equity

**Category:** Profitability | **Current Status:** ▲ **OUTPERFORMING** | **Company:** 33.58% | **Industry Avg:** 28.00%




### ■ What does it mean?

ROE measures the return generated on the owner's equity in the business. For construction firms, equity tends to be higher than pure services firms due to vehicle and equipment investment.

### ■ Why should it matter?

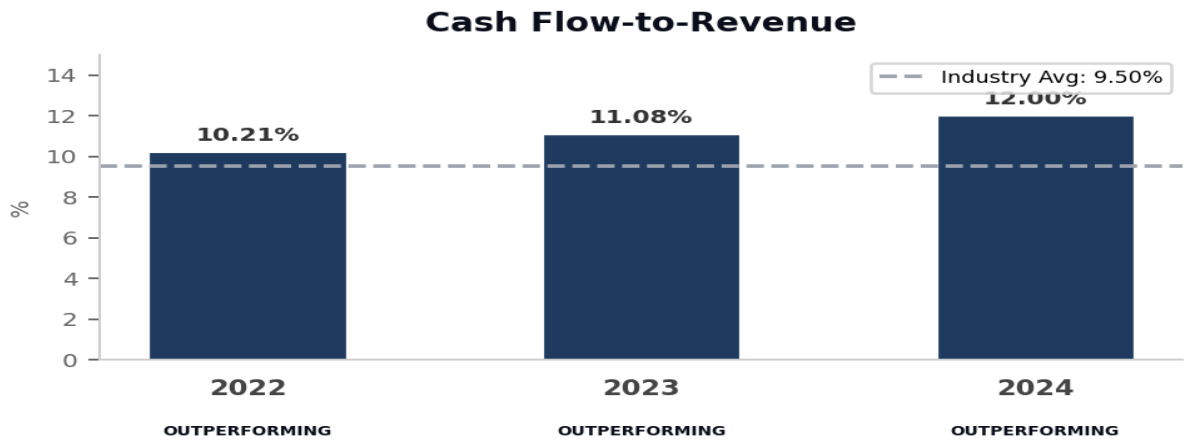
Improving ROE while growing the asset base (fleet, equipment) signals that the Company is deploying capital productively. This is particularly relevant for estate planning — it demonstrates the business is generating wealth efficiently.

### ■ Give me an example

At 33.58%, Summit generates strong returns on the owner's $1.06M equity stake. The improving trajectory from 25.93% reflects both profit growth and disciplined capital management.

# 9 KPI Detail: Cash Flow-to-Revenue

**Category:** Profitability | **Current Status:** ▲ **OUTPERFORMING** | **Company:** 12.00% | **Industry Avg:** 9.50%




### ■ What does it mean?

Cash flow-to-revenue shows how much of each revenue dollar converts to owner cash flow. For contractors, this is depressed by heavy equipment depreciation and working capital tied up in receivables and retainage.

### ■ Why should it matter?

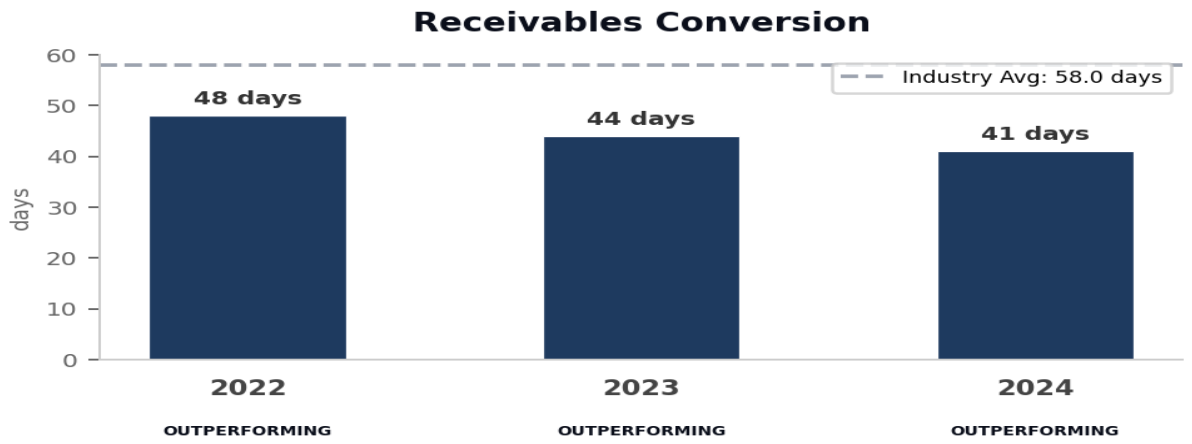
Consistently converting 12% of revenue to cash flow in a capital-intensive trade business is strong. The UCHealth contract's monthly payment structure will further improve this metric.

### ■ Give me an example

At 12.00%, Summit converts $732K of its $6.1M revenue to owner cash flow — significantly above the 9.50% industry median and improving annually.

# 9 KPI Detail: Receivables Conversion

**Category:** Activity | **Current Status:** ▲ **OUTPERFORMING** | **Company:** 41 days | **Industry Avg:** 58.0 days




### ■ What does it mean?

This measures how many days it takes to collect payment after invoicing. In commercial construction, payment terms of net-30 to net-60 are standard, and retainage holdbacks (5-10%) extend effective collection periods.

### ■ Why should it matter?

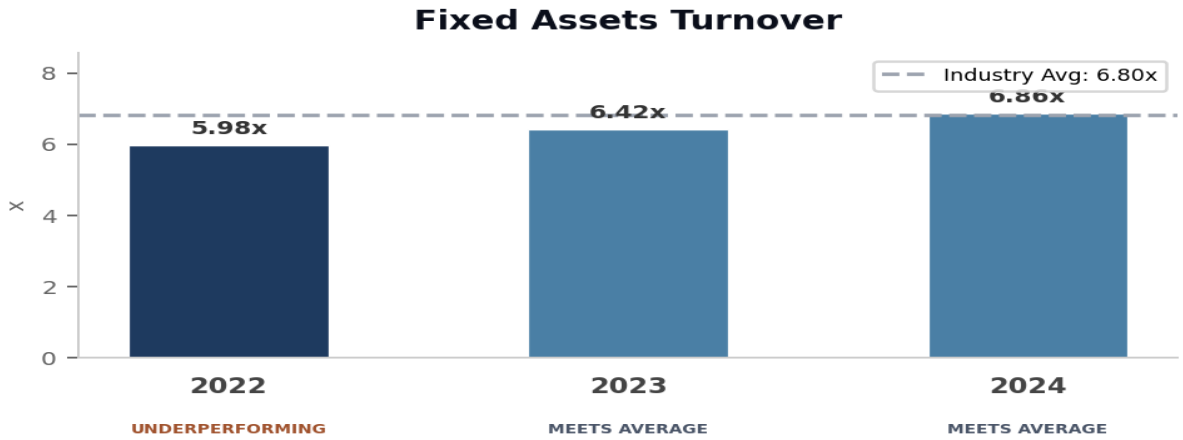
Collecting 17 days faster than the industry average means significantly less cash is trapped in receivables. For a $6.1M contractor, each day of improvement frees approximately $16,700 in working capital.

### ■ Give me an example

At 41 days, Summit collects far faster than the 58-day industry median. This reflects strong GC relationships and the practice of progressive billing with shorter payment cycles on service work.

# 9 KPI Detail: Fixed Assets Turnover

**Category:** Activity | **Current Status:** = MEETS AVERAGE | **Company:** 6.86x | **Industry Avg:** 6.80x




### ■ What does it mean?

This ratio measures revenue generated per dollar of fixed assets (vehicles, equipment, tools). For HVAC contractors, the fleet and specialized equipment represent a significant capital base.

### ■ Why should it matter?

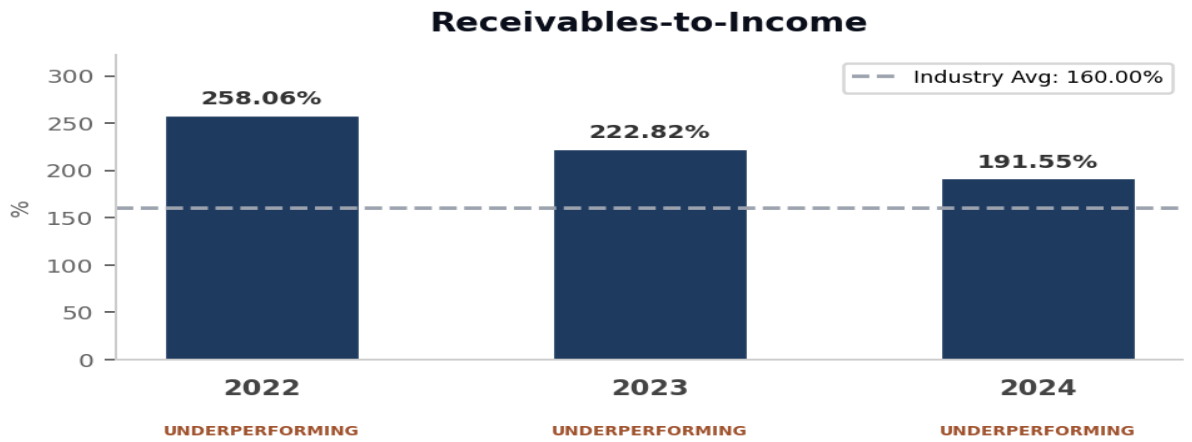
Meeting the industry average on fixed asset turnover while growing the fleet indicates disciplined capital allocation. Adding vehicles and equipment that generate proportional revenue growth is a positive signal.

### ■ Give me an example

At 6.86x, Summit generates $6.86 in revenue for every $1 invested in its fleet and equipment — right at the 6.80x industry median. The improving trend from 5.98x reflects revenue growth outpacing capital investment.

# 9 KPI Detail: Receivables-to-Income

**Category:** Activity | **Current Status:** ▼ UNDERPERFORMING | **Company:** 191.55% | **Industry Avg:** 160.00%




### ■ What does it mean?

This metric compares outstanding receivables to annual pretax income. For contractors, receivables are typically high due to progress billing cycles and retainage holdbacks on construction contracts.

### ■ Why should it matter?

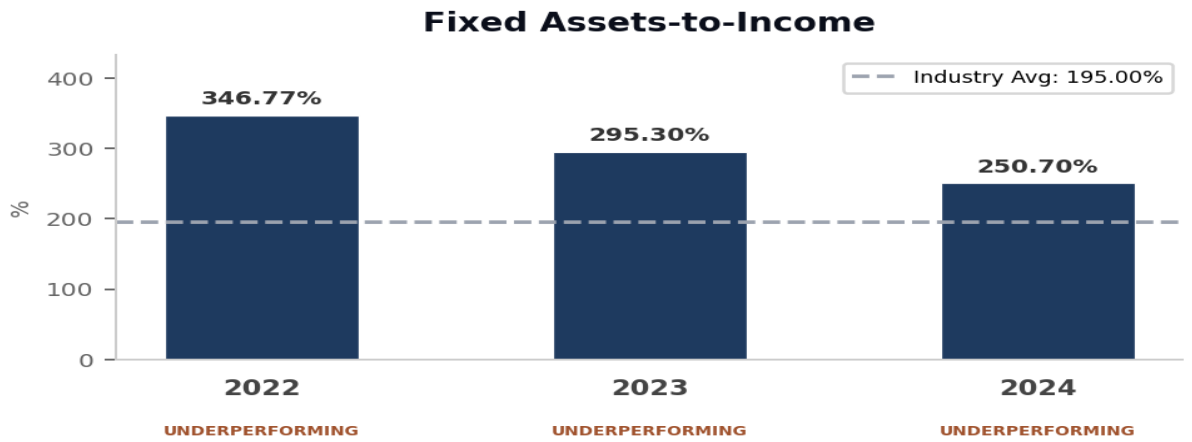
While underperforming, the dramatic improvement from 258% to 192% reflects both growing profitability and improving collection practices. The UCHealth contract's monthly billing cycle will further reduce this ratio.

### ■ Give me an example

At 191.55%, Summit has nearly twice its annual pretax income locked in receivables — elevated but improving. The shift toward service/maintenance revenue with shorter billing cycles is the primary driver of improvement.

# 9 KPI Detail: Fixed Assets-to-Income

**Category:** Activity | **Current Status:** ▼ UNDERPERFORMING | **Company:** 250.70% | **Industry Avg:** 195.00%




### ■ What does it mean?

This ratio shows how much capital is locked in fixed assets relative to profits. For HVAC contractors, the 22-vehicle fleet plus specialized equipment represents a substantial capital commitment.

### ■ Why should it matter?

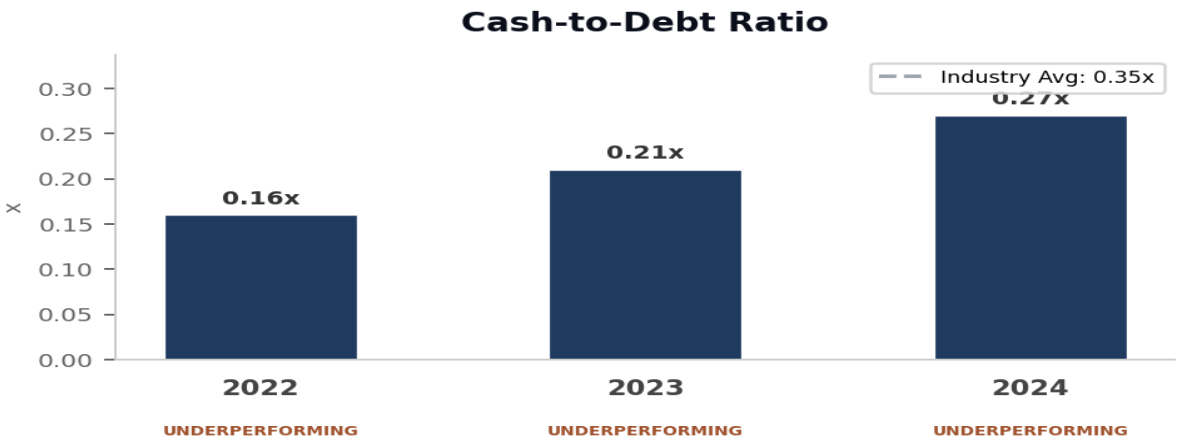
While elevated, the 96-point improvement over three years shows the Company is growing profits faster than its asset base. Continued profit growth and strategic fleet management will bring this ratio closer to industry norms.

### ■ Give me an example

At 250.70%, Summit has 2.5 years of pretax income invested in its fleet and equipment. The improving trend reflects the higher-margin service revenue growing without proportional equipment additions.

# 9 KPI Detail: Cash-to-Debt Ratio

**Category:** Liquidity | **Current Status:** ▼ UNDERPERFORMING | **Company:** 0.27x | **Industry Avg:** 0.35x




### ■ What does it mean?

The cash-to-debt ratio measures the firm's ability to cover total liabilities from cash on hand. For contractors, this is typically low because capital is deployed in receivables, equipment, and bonded project requirements.

### ■ Why should it matter?

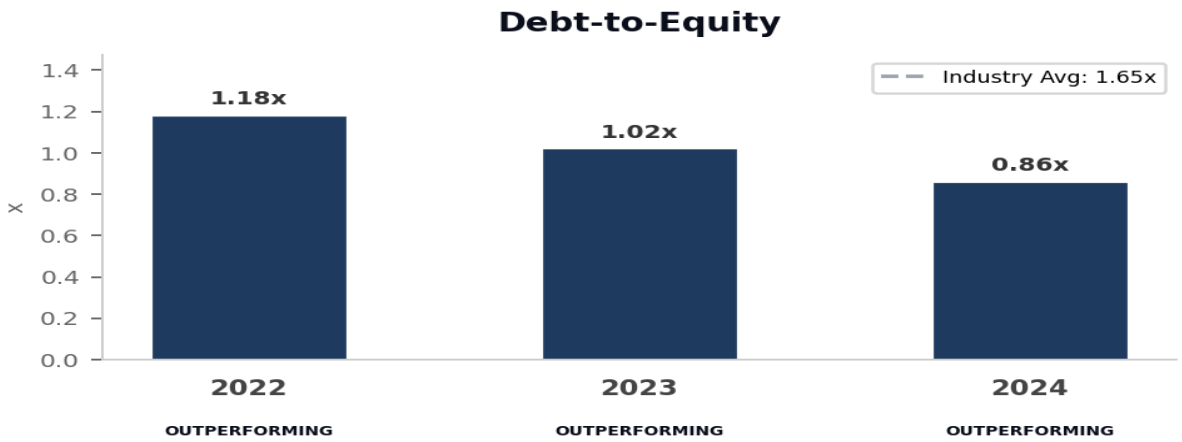
While below the industry median, the steady improvement from 0.16x to 0.27x reflects deliberate cash accumulation. The UCHealth contract provides monthly cash inflows that will further improve liquidity.

### ■ Give me an example

At 0.27x, Summit holds $0.27 in cash for every $1 of total debt. This is typical for growing contractors who reinvest cash flow in fleet and equipment rather than accumulating cash reserves.

# 9 KPI Detail: Debt-to-Equity

**Category:** Solvency | **Current Status:** ▲ **OUTPERFORMING** | **Company:** 0.86x | **Industry Avg:** 1.65x




### ■ What does it mean?

Debt-to-equity measures the proportion of the Company's capital funded by creditors versus the owner. Construction firms typically carry higher leverage due to equipment financing and credit lines for project working capital.

### ■ Why should it matter?

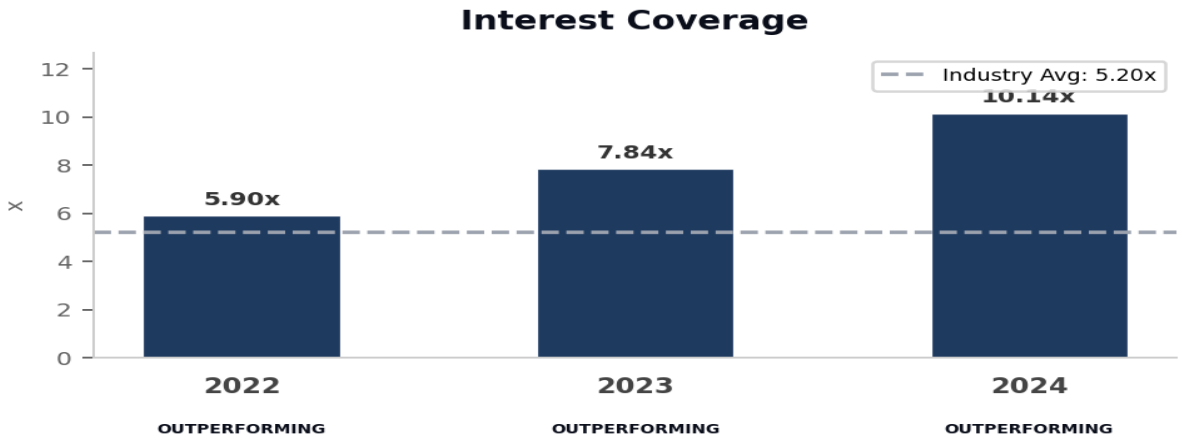
Summit's debt-to-equity is well below the industry median and improving rapidly. This is a positive signal for bonding capacity — surety companies evaluate leverage ratios when setting bonding limits.

### ■ Give me an example

At 0.86x, Summit carries roughly half the leverage of the industry median (1.65x). This conservative capital structure supports the Company's $4.5M bonding capacity and provides room for growth.

# 9 KPI Detail: Interest Coverage

**Category:** Solvency | **Current Status:** ▲ **OUTPERFORMING** | **Company:** 10.14x | **Industry Avg:** 5.20x




### ■ What does it mean?

The interest coverage ratio measures how many times the Company can cover its debt interest from operating earnings. For contractors, strong interest coverage supports bonding capacity and lender confidence.

### ■ Why should it matter?

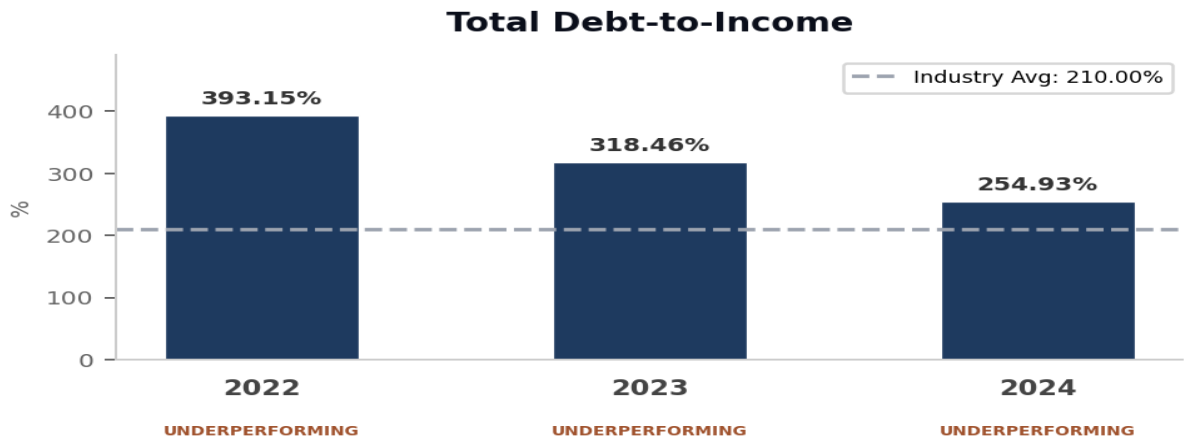
Interest coverage is a key metric for both surety companies and lenders. Maintaining 10x+ coverage while growing provides significant headroom for additional equipment financing or credit facilities.

### ■ Give me an example

At 10.14x, Summit covers its interest expense over 10 times from pretax earnings — nearly double the 5.20x industry median. This supports continued access to bonding and equipment financing.

# 9 KPI Detail: Total Debt-to-Income

**Category:** Solvency | **Current Status:** ▼ UNDERPERFORMING | **Company:** 254.93% | **Industry Avg:** 210.00%




### ■ What does it mean?

This ratio compares total liabilities to annual pretax income. For contractors, this tends to be high due to project-related payables, equipment financing, and retainage held on behalf of subcontractors.

### ■ Why should it matter?

While still above the industry median, the 138-point improvement over three years is dramatic. Continued profit growth — particularly from the higher-margin service/maintenance channel — will close the remaining gap.

### ■ Give me an example

At 254.93%, it would take approximately 2.5 years of pretax income to retire all liabilities. The rapid improvement trajectory suggests this will approach the 210% industry median within 12-18 months.

# Value Acceleration Roadmap

The following priorities are recommended to enhance the value of the business over a 24 months. Each item includes an estimated value impact range based on industry benchmarks and the Company's current performance profile.

### Priority #1: Expand Service & Maintenance Division to 30%+ of Revenue (Estimated Impact: $150,000 – $300,000)

The UCHealth contract proves the model. Actively pursue maintenance contracts with other healthcare systems, school districts, and commercial property managers along the Front Range. Target: grow service/maintenance from 18% to 30%+ of revenue within 24 months. Each 1% shift from project to service revenue adds approximately $12K in annual profit due to the margin differential.

*Related KPIs: Pretax Margin, Cash Flow-to-Revenue, Revenue Cyclicality*

### Priority #2: Train a Second Estimator (Estimated Impact: $80,000 – $175,000)

Identify and train a senior project manager to serve as a backup estimator. Begin with smaller tenant improvement projects ($50K-$200K) and progressively increase complexity over 18 months. The owner's estimating concentration is the single largest key-person risk — a second estimator eliminates it.

*Related KPIs: Key Person Risk, Owner Dependency*

### Priority #3: Optimize Fleet Lifecycle Management (Estimated Impact: $40,000 – $80,000)

Implement a structured fleet replacement schedule that balances depreciation tax benefits with maintenance costs. Transition to a 5-year replacement cycle for service vans and 7-year cycle for trucks. This reduces maintenance expense and improves fixed asset turnover while maintaining tax-efficient depreciation.

*Related KPIs: Fixed Assets-to-Income, Fixed Asset Turnover*

### Priority #4: Accelerate Debt Reduction Program (Estimated Impact: $60,000 – $120,000)

Allocate 25% of the incremental cash flow from the UCHealth contract ($150K/year) toward accelerated principal payments on equipment loans. Target: reduce total liabilities by $200K-$300K within 24 months, improving cash-to-debt and debt-to-income ratios to at or above industry averages.

*Related KPIs: Cash-to-Debt, Total Debt-to-Income, Bonding Capacity*

### Priority #5: Formalize Project Management & Estimating Systems (Estimated Impact: $50,000 – $100,000)

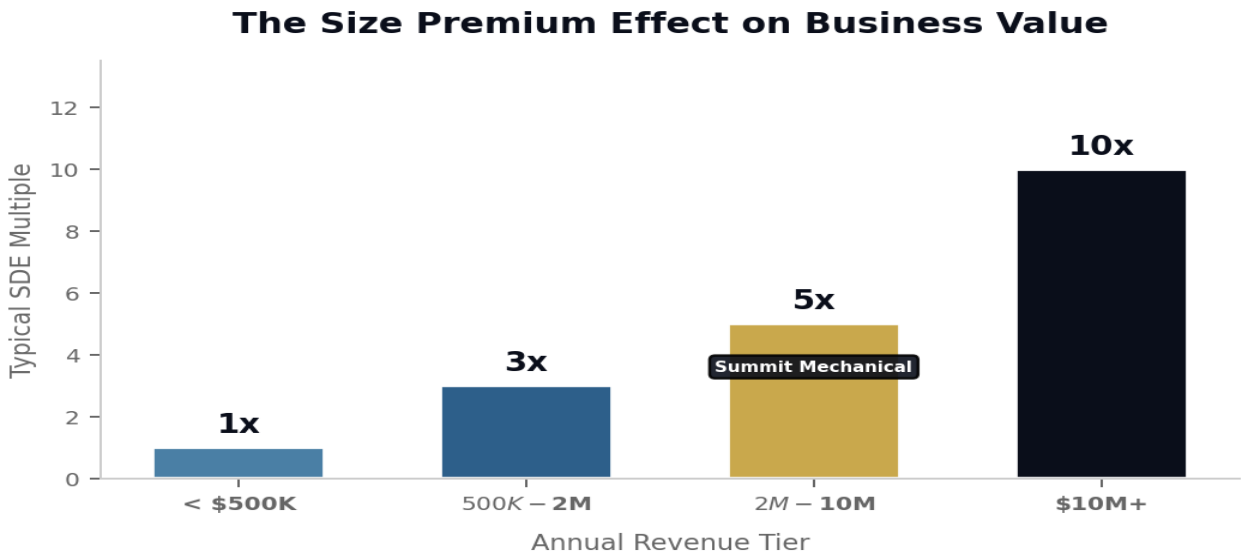
Implement a construction project management platform (Procore, BuilderTrend, or similar) to document estimating templates, project workflows, and subcontractor management processes. This creates transferable institutional knowledge and reduces dependency on individual project managers.

*Related KPIs: Owner Dependency, Operational Scalability*

| | Low Estimate | High Estimate |
|---|---|---|
| Total Projected Value Enhancement | $380,000 | $775,000 |
| **Projected Business Value** | **$2,684,243** | **$3,079,243** |

## Value Map — Size Premium Visualization

Research consistently demonstrates that larger businesses command higher valuation multiples. This "size premium" effect reflects reduced risk, better access to capital, more diversified revenue, and professional management depth. The chart below illustrates how typical SDE multiples increase across revenue tiers.




| Revenue Tier | Typical Multiple | Key Characteristics |
|---|---|---|
| < $500K Revenue | 1.0x - 2.0x SDE | Single operator; high owner dependency; limited transferability |
| $500K - $2M Revenue | 2.0x - 3.5x SDE | Small team; some systems; moderate owner dependency |
| $2M - $10M Revenue | 3.0x - 5.0x SDE | Management in place; documented processes; bankable cash flow |
| $10M+ Revenue | 5.0x - 10.0x+ SDE | Professional management; diversified revenue; strategic acquirer interest |

*Note: Multiples shown are illustrative ranges based on aggregated transaction data from DealStats, BizBuySell, and IBBA Market Pulse. Actual multiples vary by industry, geography, growth trajectory, and business-specific risk factors.*

# Methodology Disclosure & Platform Attestation

This Calculation of Value was generated by the VEM Logic AI Engine, a proprietary financial analysis platform developed and operated by Valuation Equity Metrics, LLC. The following disclosures apply:

1. This report constitutes a Calculation of Value under the AICPA Statement on Standards for Valuation Services (SSVS) No. 1. It is not a Certified Appraisal, a Section 409A Valuation, or a Conclusion of Value. It should not be used for IRS tax compliance, litigation, or divorce proceedings.

2. All financial computations — including SDE normalization, discount rate build-up, income capitalization, market multiple application, asset approach reconciliation, and the weighted conclusion — are derived algorithmically from the source financial data provided by the client. No derived values are manually overridden.

3. Industry benchmarks are sourced from RMA Annual Statement Studies, Duff & Phelps/Kroll Cost of Capital Navigator, DealStats, IBBA Market Pulse, BizBuySell, and Damodaran Online. The VEM Logic platform is not affiliated with or endorsed by these data providers.

4. The compensation paid for this engagement is a flat fee of $999.95 and is not contingent upon the value conclusion, the direction of value, or any subsequent transaction.

5. This report is intended solely for the use of the intended user(s) identified on the cover page. Valuation Equity Metrics, LLC assumes no responsibility for reliance upon this report by any third party.

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**Generated by VEM Logic AI Engine**

Valuation Equity Metrics, LLC

Report Date: June 15, 2025

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# Glossary of Terms

**Asset Sale Value**
The value of a business's operating assets, excluding cash, receivables, and liabilities. Represents what a buyer would pay for the business's income-generating asset base.

**Capitalization Rate**
The rate used to convert a single period's earnings into an indication of value. Equals the discount rate minus the expected long-term sustainable growth rate.

**Calculation of Value**
A valuation engagement that uses agreed-upon approaches and methods to determine value. Less rigorous than a full USPAP appraisal but appropriate for most transaction and planning purposes.

**DLOC (Discount for Lack of Control)**
A discount applied to reflect the diminished value of a non-controlling ownership interest.

**DLOM (Discount for Lack of Marketability)**
A discount applied to reflect the reduced liquidity of a privately held business interest compared to publicly traded securities.

**EBITDA**
Earnings Before Interest, Taxes, Depreciation, and Amortization. A common measure of operating cash flow used in business valuation.

**Enterprise Value**
The total value of a business including equity and net debt. Calculated as Equity Value plus long-term debt minus cash.

**Equity Value**
The total value available to equity holders after accounting for all assets and liabilities. Calculated as Asset Sale Value plus cash and receivables minus total liabilities.

**Fair Market Value**
The price at which property would change hands between a willing buyer and willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts.

**Goodwill**
An intangible asset representing the value of a business's reputation, customer relationships, brand recognition, and other non-physical assets.

**Income Approach**
A valuation method that converts anticipated future economic benefits into a present value. Includes capitalization of earnings and discounted cash flow methods.

**Liquidation Value**
The estimated amount that would be received if a business were terminated and the assets sold individually.

**Market Approach**
A valuation method that compares the subject business to similar businesses that have been sold in the marketplace.

**NAICS Code**
North American Industry Classification System code used to classify businesses by industry type.

**SDE (Seller's Discretionary Earnings)**
Pretax income plus owner compensation, interest, depreciation, and non-recurring items. Represents the total economic benefit available to a single owner-operator.