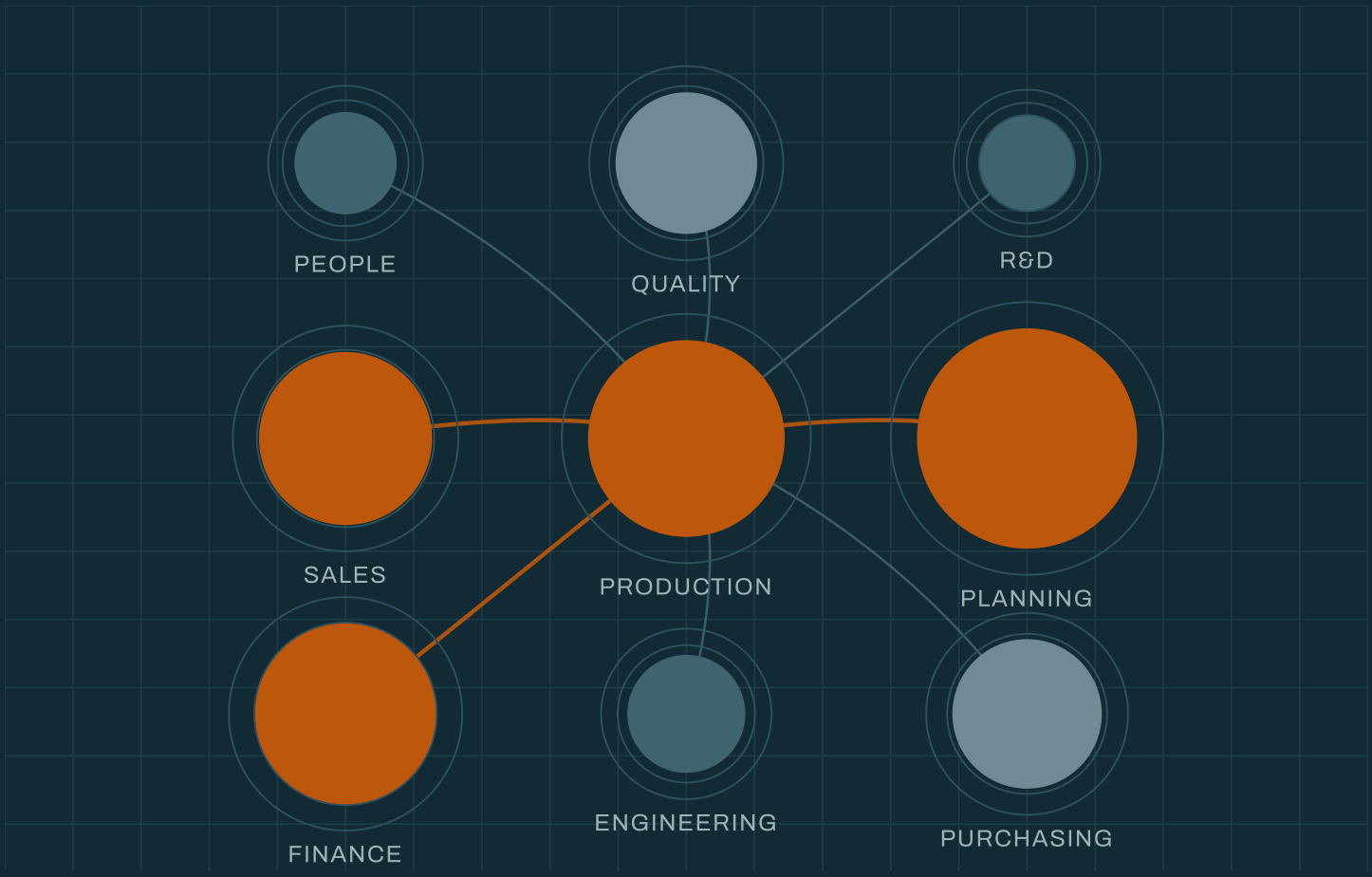
ARMES
MANAGEMENT CONSULTING



REPORT TO THE BOARD

Armes Diagnostics

Potential and measures to secure liquidity and increase profit

For the board of

[redacted]

21 March 2025

CONFIDENTIAL

Where cash and potential profit are tied up, and how to release them without new investment

A Purpose of this document

This document presents the results of the four-week Armes Diagnostics to the board and enables one decision: which of three implementation options to choose and who will lead the measures. Your CFO confirmed all figures before submission.

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B Why we started

Revenue reached €22.00 million in 2024, 6% more than two years earlier. Over the same period inventory rose from €3.4 million to €5.10 million and days of inventory from 63 to 85. Customers pay in 68 days on average; the peer median is 55 days.

Resin prices have risen by 28% since 2021, while prices to the three largest customers stayed the same. EBITDA margin fell to 9.1%; the industry median is 10.4%. The revolving credit line is fully drawn and net debt stands at €6.80 million.

Net debt / EBITDA is 3.4 against a bank covenant of 3.0. At its annual review in December 2024 the bank asked for a plan to bring the ratio below the covenant by the end of 2025. The owner wanted neither new investment nor worse delivery to customers, and therefore commissioned the Armes Diagnostics.

C What the document covers and what it does not

Covers

- ten quantified opportunities with range, effort and risk
- three options for the board's decision
- root causes of the opportunities and four rejected hypotheses
- a plan for the first 90 days with owners and your team's hours
- data sources, methods and data quality

Does not cover

- worksheets for individual measures: in separate appendix B for the owners
- an implementation proposal: prepared within two days of the decision
- company valuation, audit of financial statements, legal and tax advice
- assessments of individual employees

Conclusion: €2.26 million of cash and **€660,000** of EBITDA a year, without new investment.

1 Executive summary

KEY FACTS

- **Client:** injection-moulded plastics manufacturer, €22.00 million revenue, around 140 employees, customers in automotive, household appliances, packaging and medical.
- **Goal agreed with the owner:** net debt / EBITDA below the bank covenant of 3.0 by year end, without new investment and without worse delivery to customers.
- **Scope:** 14 hypotheses, 10 confirmed opportunities, 8 proposed for implementation.
- **Basis:** 6 interviews with managers, 7 data sources (41,200 sales lines, 1,900 items, 86 customers, 54 suppliers), financial statements 2022–2024 and 12 measured tool changeovers.
- **Duration:** 4 weeks, 12 hours of your team's time · **Confirmed by:** CFO, 19 March 2025
- **Date:** 21 March 2025 · **Prepared by:** Igor Prosenik, Armes · **Confidential**, for the board and owner only

Situation

Sales are growing: revenue €22.00 million, EBITDA €2.00 million (9.1%).

Complication

Inventory rose from €3.4 million to €5.10 million in two years, revenue by only 6%. The revolving credit line is fully drawn, leverage is 3.4.

Question

How to get below the 3.0 covenant without new investment and without worse delivery?

Answer

Eight measures release €2.26 million of cash and add €660,000 of EBITDA a year. Leverage falls to 1.8.

2.26 €m

one-off cash released: €1.66 million from inventory and €600,000 from receivables

660,000 €

recurring annual effect on EBITDA, margin from 9.1% to 12.0%; of which €200,000 from the price clause (range €120,000–200,000)

3.4 → 1.8

net debt / EBITDA after implementation and cost of measures; the bank covenant is 3.0

85 → 57

days of inventory, with no loss of delivery reliability

Your company does not have a sales problem; it has a cash problem. **Most of the cash is in inventory and receivables, most of the profit is in prices and tool changeovers.** Cash measures and profit measures are different, so the report shows them separately.

2 What we need from the board

- **Choice of option** on page 4. We recommend the middle one: measures 1–8.
- **Owners** for the eight measures from your team, 62–82 hours a month in total (page 13).
- **Budget of €150,000** for implementation, and a mandate for sales to discuss the price clause with three customers.

3 Three options for the board's decision

all three meet the bank covenant

The options differ in how much change the company can absorb at once. Each option includes the previous one.

	Basic measures 1, 2 and 5	RECOMMENDED Recommended measures 1–8	Full measures 1–10
ΔEBITDA per year	€0	+€660,000	+€830,000
Cash released	€1.63m	€2.26m	€2.26m
Cost of implementation and investment	€20,000	€150,000	€720,000
Borrowing	not needed	not needed	new debt
Net debt / EBITDA	2.6	1.8	1.9
Full effect (weeks)	10	20	40
Team workload	low	medium	high

ΔEBITDA is the recurring annual change at full effect. Cash released is one-off. Net debt / EBITDA is calculated after the cost of implementation; the bank covenant is 3.0. In the recommended option, €200,000 of EBITDA depends on how many customers accept the price clause (range €120,000–200,000).

4 What we propose

First, within 90 days

· shorter tool changeovers on four machines: **€230,000 EBITDA**

· raw-material price clause with three customers: **€200,000 EBITDA**

· new safety stocks by item: **€650,000 of cash**

· collection from late payers and interest: **€600,000 of cash**

· resin consignment, frozen forecasts, sale of slow-moving stock

What not to start

A new injection moulding machine for the automotive project (€450,000) brings €110,000 a year, but only after 40 weeks and with new debt. Renewing the compressors and cooling does not pay back in the first year. We postpone both until leverage is below 2.0. Shorter tool changeovers free part of the capacity a new machine would provide.

ⓘ The full option adds €170,000 more EBITDA than the recommended one, but requires €570,000 of investment and new debt. Its full effect arrives 20 weeks later.

HOW MUCH OF THIS REALLY MATERIALISES

– Experience from larger improvement programmes shows that 60–80% of what is identified materialises. With the recommended option and 60% realisation, that would be €400,000 of EBITDA and €1.36 million of cash; leverage would fall to 2.3, still below the 3.0 covenant.

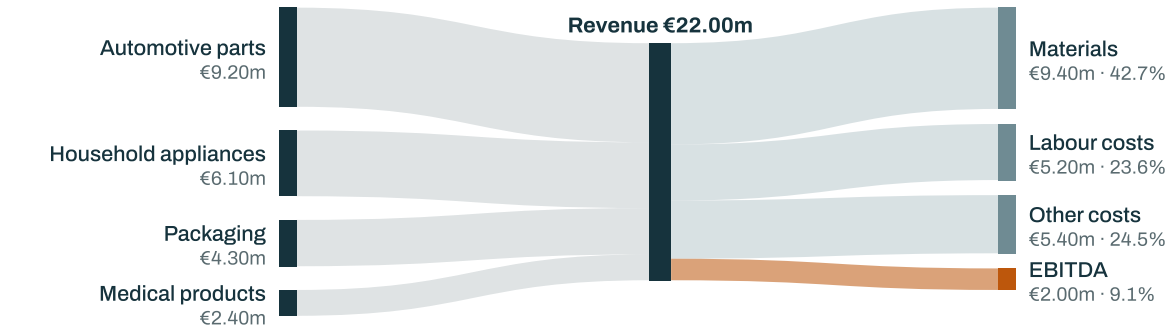
– That is why the variable part of the Armes fee is calculated only from the measured effect in phase A5, never from the estimates in this report.

5 Cash flow: where every euro of revenue goes

by product line, 2024 and after measures

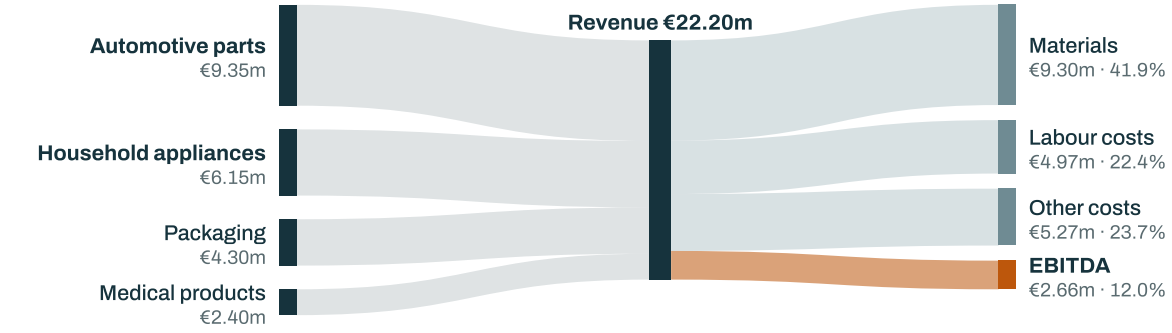
Today

€m per year, 2024



After measures 1–8

€m per year, full effect



ITEM	TODAY (€m)	AFTER MEASURES (€m)	CHANGE (€m)	MEASURE
Automotive parts	9.20	9.35	**+0.15**	7 price clause, two customers
Household appliances	6.10	6.15	**+0.05**	7 price clause, one customer
Materials	9.40	9.30	**−0.10**	8 less scrap on two tools
Labour costs	5.20	4.97	**−0.23**	6 shorter tool changeovers, less overtime
Other costs	5.40	5.27	**−0.13**	4 forecasts and S&OP, 8 scrap
EBITDA	**2.00**	**2.66**	**+0.66**	**margin 9.1% → 12.0%**

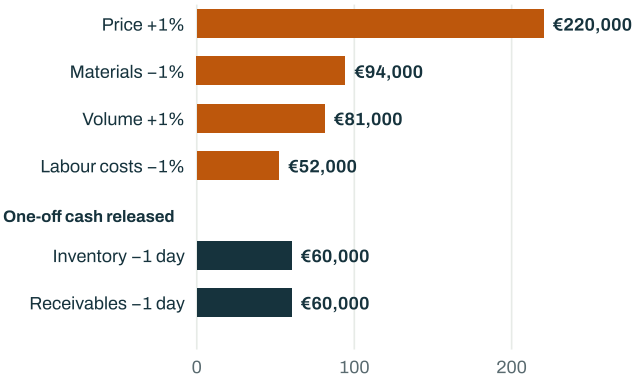
€m per year. Cash released (€2.26 million) is not visible in the income statement because it is a balance-sheet effect: less inventory and receivables, less debt. The one-off loss on selling slow-moving stock (−€120,000) is not part of recurring EBITDA.

6 Where the levers are

what a 1% change brings

The power of 1%

Change in EBITDA per year at €22 million revenue, all else equal



One percent on price brings 2.3 times more EBITDA than one percent on materials and 2.7 times more than one percent on volume.

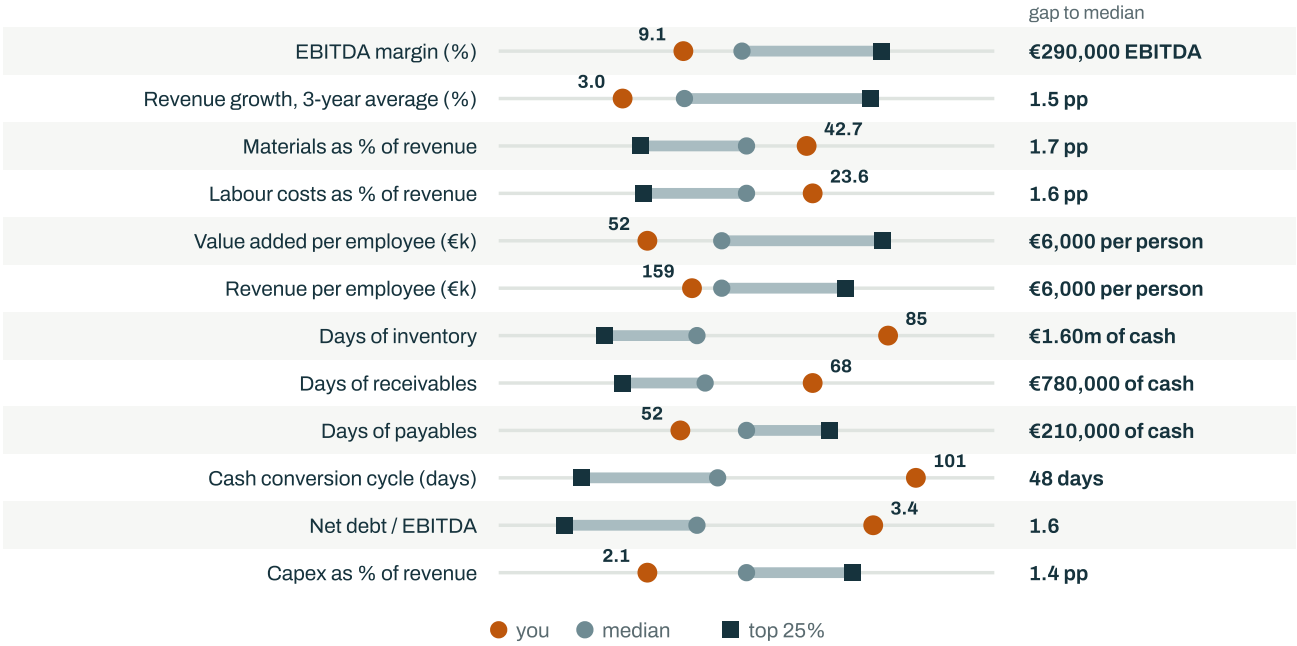
One day less inventory or receivables does not change EBITDA, but releases €60,000 of cash once. That is why it is shown separately.

In week two we therefore first examined customer prices and contracts, inventory and receivables, and only then production.

7 Where you stand among peer companies

24 plastics manufacturers, €10–40 million revenue, 2024

Source: public financial statements from AJPES and Bisnode for Slovenia, Austria and Croatia. For costs, days of inventory and receivables, and debt, lower is better.



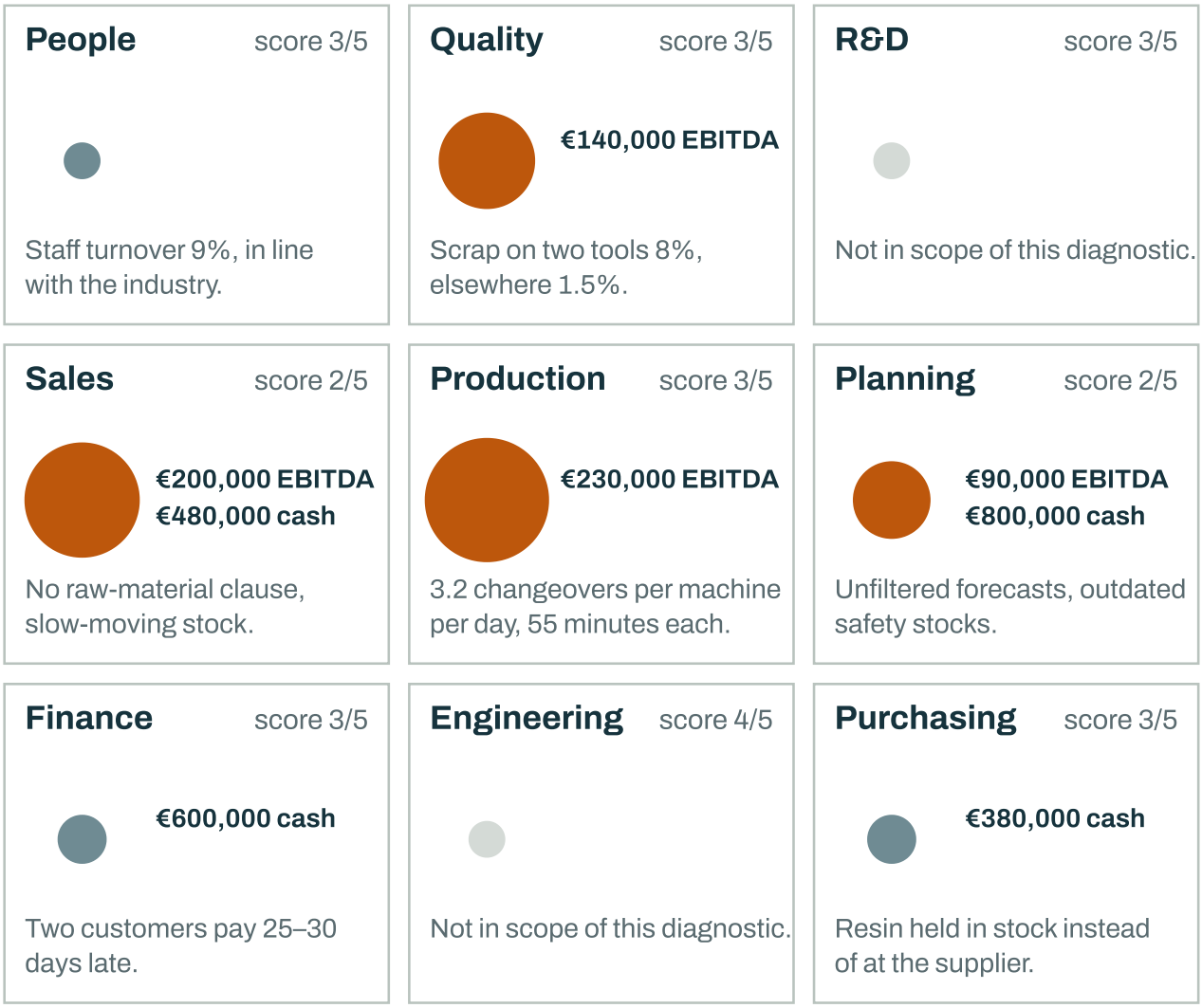
You are €290,000 of EBITDA and €2.60 million of working-capital cash short of the median. Value added per employee lags less than margin: the gap is not in people's productivity but in prices and inventory.

8 Where the value lies by function

nine functions around production

Map of nine functions

circle size = annual EBITDA effect; maturity score 1–5 from manager interviews and data



Copper: focus of the diagnostic. Blue: included, value is mainly in cash. Grey: not in scope. Planning is both the largest source of cash (€800,000) and the lowest-scored function: this is where sales, purchasing and production meet.

Managers' self-assessment and our findings

FUNCTION	SELF-ASSESSMENT (1–5)	OUR SCORE (1–5)	WHY THE DIFFERENCE
Planning	4	**2**	The plan is made on time, but on forecasts that change by 20–30% during the month.
Sales	4	**2**	Sales are growing, margin is falling: prices have not followed raw materials.
Production	3	3	The production manager described the changeover problem himself.
Finance	4	3	Reports are accurate, but collection has no owner.

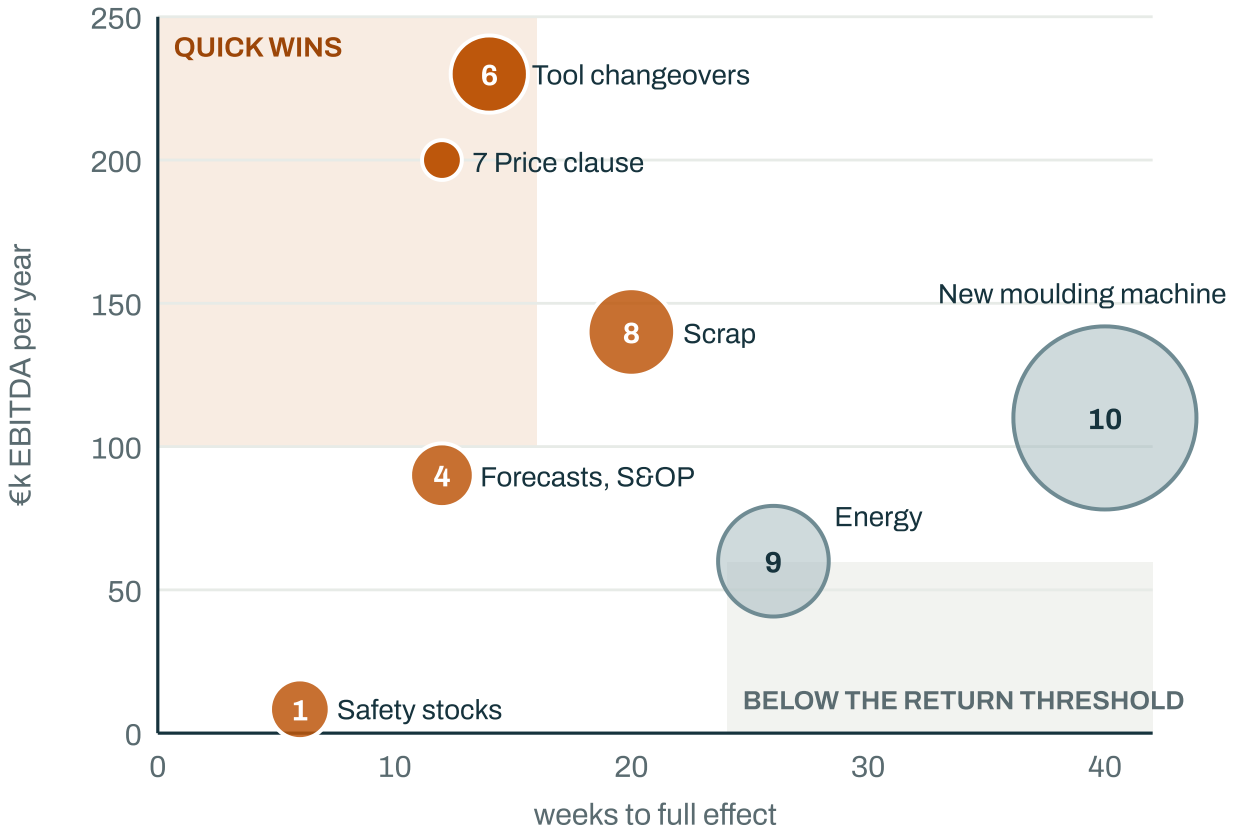
Function maturity score from 1 to 5: 1 = not in place, 3 = in place but not driving results, 5 = best practice.

9 Value Map

every opportunity has a time, a cost and an effect

EBITDA effect versus time to effect

circle size = implementation cost; opportunities 2, 3 and 5 bring cash only and are in the table on page 9



Quick wins

Tool changeovers, price clause and receivables: large effect in under 15 weeks at low cost. We start immediately.

Measures that need preparation

Scrap and forecasts need 12–20 weeks because they change tools and agreements with customers. We start in month two.

Below the return threshold

Energy and the new moulding machine do not cover their cost in the first year or require new debt. Not now.

10 Ten opportunities from the Value Map

sorted by decision, then by effect

#	OPPORTUNITY	ΔEBITDA (€/year)	CASH RELEASED (€)	COST (€)	WEEKS	EFFORT	RISK	DECISION
6	**Shorter tool changeovers** on four key machines: 55 → 20 minutes, tools prepared before stoppage (12 changeovers measured in week 2)	**230,000** ±10%	—	40,000	14	medium	low	**GO**
7	**Raw-material price clause** with three customers that account for 41% of sales	**200,000** 120,000–200,000	—	0	12	low	high	**GO**
8	**Scrap on two tools** from 8% to 3%: renewal of cavities and cooling	**140,000** ±10%	—	60,000	20	medium	medium	**GO**
4	**Frozen customer forecasts** for 2 weeks and monthly sales and operations planning	**90,000** ±10%	**150,000** ±10%	20,000	12	medium	medium	**GO**
1	**Safety stocks by item** based on actual variability of demand and supply	—	**650,000** ±10%	15,000	6	low	medium	**GO**
5	**Receivables:** reminders, late-payment interest and agreement with two customers that pay 25–30 days late	—	**600,000** ±10%	0	4	low	low	**GO**
2	**Consignment stock** of resin at the main supplier	—	**380,000** ±10%	5,000	10	medium	medium	**GO**
3	**Slow-moving stock** (€600,000): sale, reprocessing or return to supplier	−120,000 one-off	**480,000** ±10%	10,000	16	low	medium	**GO**
9	Renewal of compressors and cooling	60,000	—	120,000	26	medium	low	**NOT NOW**
10	New moulding machine for the automotive project	110,000	—	450,000	40	high	high	**NOT NOW**
	Total proposed (opportunities 1–8)	**660,000**	**2,260,000**	**150,000**				

ΔEBITDA is recurring annual, cash released is one-off. Cost includes external services, materials and your team's time at internal hourly rates. All figures were confirmed by the CFO on 19 March 2025. The ±10% range applies to estimates based on verified data; the price clause has a wider range because it depends on negotiations with customers. Risk means the likelihood that the effect is not achieved in the planned time.

11 Inventory Reduction Plan

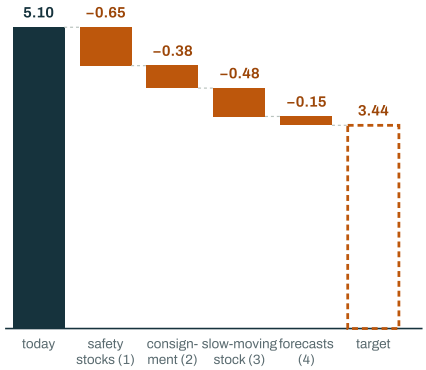
detail of opportunities 1–4, cash not profit

Four opportunities reduce inventory from €5.10 million to €3.44 million, from 85 to 57 days. That is €1.66 million of the total €2.26 million of cash released; the remaining €600,000 comes from receivables.

We reduce safety stocks item by item and in two steps. We monitor delivery reliability to customers weekly; the threshold is 98%.

Inventory Reduction Plan

€m, cash not profit



12 Why the opportunities arose

root causes of opportunities 1–8, not symptoms

Every opportunity on the Value Map has a root cause in how the company operates. If the cause is not removed, inventory, receivables or losses come back.

Crisis stocks were never reduced

opportunities 1, 2

During the 2021–2022 supply disruptions you doubled resin safety stocks. When supply settled, nobody reduced them because the ERP parameter has no owner.

Minimum order quantities 5–10 times above usage

opportunity 3

Colour masterbatches are ordered in supplier quantities, not by usage. Of 1,900 items, 22% have not moved in 12 months.

Customer forecasts go straight into purchasing

opportunities 4, 6

Customers change forecasts by 20–30% during the month. Planning copies them without a filter, causing rush orders and 3.2 tool changeovers per machine per day.

Collection has no owner

opportunity 5

Reminders are sent manually and irregularly. Nobody is responsible for the two customers that pay 25–30 days late.

Prices did not follow raw materials

opportunity 7

Resin has become 28% more expensive since 2021. Contracts with the three largest customers have no raw-material clause, so the company bears the full increase.

Two tools are worn

opportunity 8

Cavities on two tools are worn and cooling has not been renewed since 2017. Scrap is 8%, against 1.5% on the other tools.

13 What we tested and rejected

14 hypotheses from the data, 4 rejected

HYPOTHESIS	WHAT WE FOUND	OUTCOME
Resin purchase prices are above market	Prices are within 2% of the public index. The problem is the quantity of stock, not the price.	rejected
Sales gives excessive discounts	Discounts are stable at 3.1% of revenue. Margin is falling because of raw materials, not discounts.	rejected
Energy is the main cause of the margin decline	Energy is 3.8% of revenue, +0.4 percentage points in two years. Too little to explain the margin decline.	rejected
Too few people in production	Labour utilisation is 82%. The bottleneck is tool changeovers, not headcount.	rejected

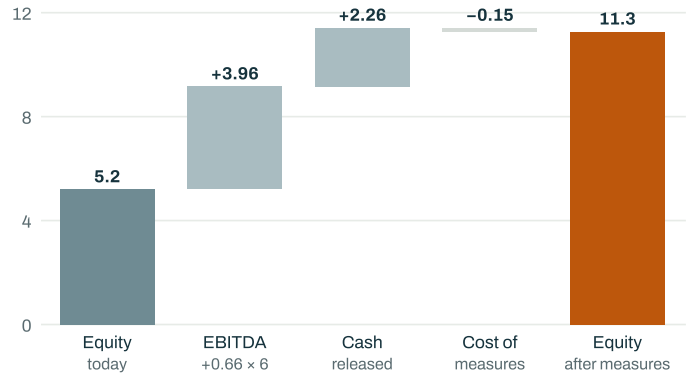
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14 What this means for your company

optional page, at the owner's request

Indicative value of the equity stake

€m, at a multiple of 6 × EBITDA; enterprise value minus net debt



The measures act on value twice: higher EBITDA increases enterprise value, and released cash reduces the debt that is deducted from it.

At a multiple of 6, the indicative equity value rises from €5.20 million to €11.27 million.

Range at different multiples

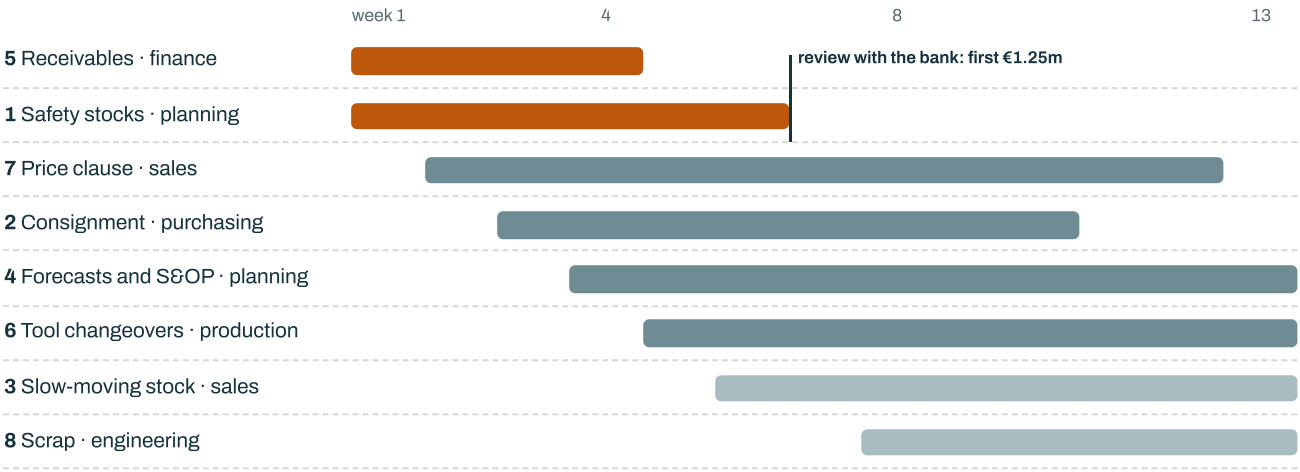
EBITDA multiple	Enterprise value today	Equity today	Enterprise value after measures	Equity after measures
5 ×	10.0	3.2	13.3	**8.6**
6 ×	12.0	5.2	16.0	**11.3**
7 ×	14.0	7.2	18.6	**13.9**

€m. Net debt today €6.80 million, after measures €4.69 million (cash released €2.26 million minus cost of measures €150,000).

ⓘ This is not a company valuation. Armes is not a certified valuer. The multiples are indicative for manufacturing companies of this size in the region and serve only to compare before and after the measures. For a sale, succession or investor entry we recommend a valuation by a certified valuer.

15 Plan for the first 90 days

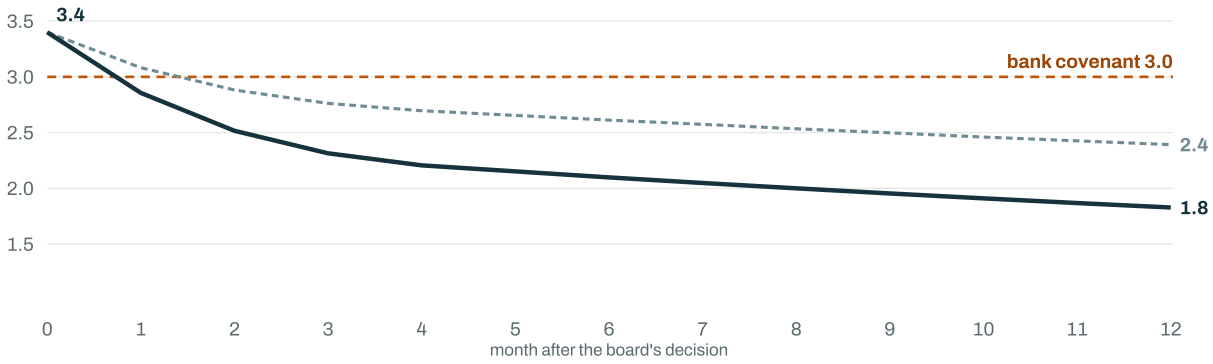
every measure has an owner and a monthly KPI



Copper: full effect within 90 days. Dark: effect starts within 90 days. Light: continues after 90 days, full effect by week 20.

16 Leverage by month

net debt / EBITDA for the last 12 months, as the bank calculates it



Recommended option (solid line): the ratio falls below the covenant in month 1, because receivables and safety stocks come first. After 12 months it is 1.8; once the full EBITDA effect is visible in all 12 months, it stays at 1.8.

At 60% realisation (dashed): below the covenant in month 2, 2.4 after 12 months. Even in the weaker case the covenant is met before year end.

Trailing 12-month EBITDA grows more slowly than the annual effect of the measures because the bank includes past months. Released cash reduces debt immediately. The cost of measures (€150,000) is included in the first four months.

17 Workload for your team

your team's hours by month, excluding Armes hours

#	MEASURE	OWNER	DECIDES	MONTH 1 (hours)	MONTH 2 (hours)	MONTH 3 (hours)
5	Receivables	finance	CFO	12	6	2
1	Safety stocks	planning	managing director	16	8	4
7	Price clause	sales	board	10	10	6
2	Consignment	purchasing	managing director	6	8	4
4	Forecasts and S&OP	planning	managing director	8	12	12
6	Tool changeovers	production	production director	6	24	24
3	Slow-moving stock	sales	CFO	4	8	8
8	Scrap	engineering	board	0	6	12
	Total			**62**	**82**	**72**

Your team's hours, excluding Armes hours. Tool changeovers need the most in months 2 and 3, when the procedure is rolled out on four machines. At most three measures run at the same time per department. The board decides on measures that change terms with customers or require investment.

18 Roles and rules of implementation

Board sponsor

Managing director. Decides on moving between phases and chairs the monthly review, 1 hour.

Measure owners

Six managers. They implement the measure in their department and report the KPI weekly.

Armes

Method, support for owners and measurement of effect in phases A0–A5. Monthly report to the board.

Stop rule: if a measure's KPI does not improve for two consecutive months, the sponsor changes or stops the measure at the monthly review. A stopped measure is not included in the variable fee.

19 The board's decision

We propose that the board chooses the recommended option (measures 1–8) and confirms the owners. We will prepare an implementation proposal with effect measurement within two working days.

We propose a measure only if its annual effect is at least five times its implementation price. The baseline for measurement is the figures in this diagnostic, which the board confirms in writing at the start of implementation.

I am available for any questions

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20 Appendix: data and methods

what the figures are based on

SOURCE	PERIOD	SCOPE	CONFIRMED BY
Income statements and balance sheets	2022–2024, monthly 2024	audited annual, internal monthly	CFO
Sales by invoice line	Jan 2023 – Feb 2025	41,200 lines, 86 customers, 640 products	CFO
Inventory and movements	balance at 28 Feb 2025, 24 months of movements	1,900 items	planning manager
Receivables and payments	open items at 28 Feb 2025, payments 2024	86 customers	accounting
Purchasing	orders 2024	3,100 lines, 54 suppliers	purchasing manager
Work orders and changeovers	2024, measured in week 2	4 machines, 12 measured changeovers	production manager
Manager interviews and self-assessment	week 1	6 managers, 45 minutes each	—

Data quality

Material cost was missing on 4% of sales lines; we completed it from bills of materials. We corrected 38 items with the wrong unit of measure together with the planning manager. All other data were complete.

Methods

Inventory: ABC/XYZ classification and safety stock from demand and lead-time variability. Margin: price waterfall by customer. Power of 1%: change with all other conditions unchanged.

Comparison with peer companies

24 companies from public financial statements: Slovenia 2024 (AJPES), Croatia 2024 (FINA), Austria 2023 (latest published year). Top 25% and median per indicator.

Data security

We process data on an encrypted disk; access to all accounts is protected by two-factor authentication and a password manager. The project is covered by a 5-year confidentiality agreement. Data are not shared with anyone outside the project.

Rule for amounts

Amounts below €1 million are shown in whole euros (€660,000), amounts above €1 million in € million with two decimals (€2.26 million). In charts the unit is given below the title.

Measure phases: from idea to cash in the financial statements

A0	A1	A2	A3	A4	A5
Idea: root cause, owner, rough estimate	Quantified, confirmed by the CFO	Approved: owner, KPI	In implementation, monthly report	Implemented in process or system	**In cash: visible in monthly accounts**

Today all measures 1–8 are in phase A1. With the board's decision they move to A2. The variable fee for implementation is charged only in phase A5.

Sample report: data that would identify the client are blurred; the company and figures are composites of typical cases.