

JOHNSON & SONS HEATING, PLUMBING, & AIR

Comprehensive Statement of Changes in Shareholders' Equity

For the Years Ended December 31, 2024 and 2023

Entity Type: S-Corporation (Pass-Through Taxation) | **Industry:** Specialty Trade Contractor (NAICS 238220)
Operations: Multi-State (Arizona, Utah, Colorado) | **Annual Revenue:** \$68.85M | **Employees:** 115
Ownership Structure: Two Equal Shareholders (Johnson Brothers) | **Years in Operation:** 46 (Founded 1979)

RETURN ON EQUITY
78.4%
INDUSTRY AVG: 25-35%

EQUITY TO ASSETS
23.4%
INDUSTRY AVG: 20-30%

BOOK VALUE PER SHARE
\$67.65
100,000 SHARES OUTSTANDING

EQUITY/REVENUE RATIO
9.8%
BONDING REQ: >5%

EQUITY COMPONENTS	Common Stock (Par \$1)	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Shareholders' Equity
BALANCE, JANUARY 1, 2023						
Beginning Balances	100,000	500,000	5,191,420	-	-	5,791,420
COMPREHENSIVE INCOME - YEAR ENDED DECEMBER 31, 2023						
Net Income	-	-	4,608,580	-	-	4,608,580
Operating Income After Tax	-	-	4,668,580	-	-	4,668,580
Non-Operating Items (Net of Tax)	-	-	(60,000)	-	-	(60,000)
Other Comprehensive Income	-	-	-	-	-	-
Total Comprehensive Income	-	-	4,608,580	-	-	4,608,580
DISTRIBUTIONS & CAPITAL TRANSACTIONS - 2023						
Regular S-Corp Distributions	-	-	(3,600,000)	-	-	(3,600,000)
Q1 2023: \$900,000	-	-	-	-	-	-
Q2 2023: \$900,000	-	-	-	-	-	-
Q3 2023: \$900,000	-	-	-	-	-	-
Q4 2023: \$900,000	-	-	-	-	-	-
Tax Distributions (Pass-Through)	-	-	(550,000)	-	-	(550,000)
Federal & State Tax Coverage	-	-	-	-	-	-
Total Distributions 2023	-	-	(4,150,000)	-	-	(4,150,000)
BALANCE, DECEMBER 31, 2023	100,000	500,000	5,650,000	-	-	6,250,000
COMPREHENSIVE INCOME - YEAR ENDED DECEMBER 31, 2024						
Net Income	-	-	5,150,000	-	-	5,150,000
Operating Income After Tax	-	-	5,230,000	-	-	5,230,000
Non-Operating Items (Net of Tax)	-	-	(80,000)	-	-	(80,000)
Other Comprehensive Income	-	-	-	-	-	-
Total Comprehensive Income	-	-	5,150,000	-	-	5,150,000
DISTRIBUTIONS & CAPITAL TRANSACTIONS - 2024						
Regular S-Corp Distributions	-	-	(4,000,000)	-	-	(4,000,000)
Q1 2024: \$1,000,000	-	-	-	-	-	-
Q2 2024: \$1,000,000	-	-	-	-	-	-
Q3 2024: \$1,000,000	-	-	-	-	-	-
Q4 2024: \$1,000,000	-	-	-	-	-	-
Tax Distributions (Pass-Through)	-	-	(635,000)	-	-	(635,000)
Federal & Multi-State Tax Coverage	-	-	-	-	-	-
Total Distributions 2024	-	-	(4,635,000)	-	-	(4,635,000)
BALANCE, DECEMBER 31, 2024	\$100,000	\$500,000	\$6,165,000	\$-	\$-	\$6,765,000

Construction Industry Equity Benchmarks & Analysis

Working Capital to Equity
66.2%
Industry Range: 40-80%

Debt-to-Equity Ratio
2.55x
Industry Range: 2.0-3.5x

Distribution Payout Ratio
90.0%
S-Corp Average: 80-95%

Critical Observations for Specialty Contractors

- Bonding Capacity:** \$6.8M equity supports ~\$68M in aggregate bonding capacity at typical 10:1 leverage
- Multi-State Tax Efficiency:** S-Corp structure saves ~\$1.37M annually vs. C-Corp double taxation
- Capital Preservation:** Despite 90% distributions, equity grew 8.2% YoY through strong earnings
- Exit Planning:** High ROE of 78.4% supports premium valuation multiple of 6.0x EBITDA
- Working Capital Management:** \$4.5M working capital funded through operations, not retained earnings

Note 1: Capital Structure & Ownership

The company maintains 100,000 shares of \$1 par value common stock, all issued and outstanding. Ownership is equally divided between the two Johnson brothers (50,000 shares each), who have maintained this structure since their father's passing in 2014. The S-Corporation election has been in effect since 1987, providing significant tax advantages for the shareholders. *(Confidence: 95%)*

Shareholder	Shares	Ownership %	2024 Distributions
Johnson Brother #1	50,000	50%	\$2,317,500
Johnson Brother #2	50,000	50%	\$2,317,500

Note 2: Distribution Policy & Tax Considerations

Regular Distributions: The company maintains a quarterly distribution schedule, with amounts determined based on cash flow, working capital needs, and bonding requirements. The 77.7% regular distribution rate (excluding tax distributions) reflects the mature nature of the business and limited capital reinvestment needs.

Tax Distributions: Separate tax distributions cover shareholders' federal and multi-state tax obligations on pass-through income. The 2024 tax distribution of \$635,000 represents approximately 12.3% of net income, calculated based on composite effective rates across Arizona (5.05%), Utah (4.65%), and Colorado (4.40%), plus federal obligations. *(Confidence: 90%)*

Note 3: Construction Industry Capital Requirements

Bonding Considerations: As a specialty contractor performing public and large commercial projects, the company must maintain minimum equity levels for surety bonding. The current \$6.8M equity supports the \$88M backlog with appropriate leverage. Industry standards typically require 5-10% of annual revenue in equity, which the company exceeds at 9.8%.

Working Capital Funding: Despite high distributions, the company maintains adequate working capital through its \$5M line of credit and strong operating cash flow. The 66.2% working capital to equity ratio is healthy for the construction industry. *(Confidence: 85%)*

Note 4: Multi-State Operational Considerations

The company's multi-state operations create complex tax and regulatory requirements:

- Arizona (50% of operations):** Requires contractor licensing and bonding at state level
- Utah (30% of operations):** Separate licensing and potential nexus for equipment
- Colorado (20% of operations):** Additional compliance and apportionment requirements

Each state's requirements influence capital retention needs and distribution timing. *(Confidence: 85%)*

Note 5: Exit Strategy & Valuation Implications

With the pending sale at \$51.25M (6.0x EBITDA), the shareholders' equity position supports several key valuation metrics:

- Price to Book Value:** 7.58x (\$51.25M ÷ \$6.765M equity)
- Implied Goodwill:** ~\$44.5M above book value
- Tax Basis Step-Up:** Buyer will receive new basis in assets
- S-Corp Built-in Gains:** No entity-level tax on sale due to S-Corp status

The high distribution history demonstrates strong cash generation capacity, supporting the premium valuation. *(Confidence: 85%)*

Note 6: Comprehensive Income Considerations

As a specialty contractor, the company has minimal other comprehensive income items. Potential OCI items that were evaluated but determined to be not applicable include:

- Foreign currency translation (all operations in USD)
- Pension adjustments (defined contribution plan only)
- Unrealized gains/losses on investments (minimal marketable securities)
- Cash flow hedge adjustments (no derivative instruments)

(Confidence: 90%)

Note 7: Related Party Transactions

The normalized EBITDA adjustments of \$2.98M include \$600K in related party transactions, primarily excess facility rent paid to the real estate LLC also owned by the Johnson brothers. These transactions affected retained earnings but are eliminated in the sale transaction as properties are included. *(Confidence: 85%)*

✓ Comprehensive Cross-Statement Validation

Income Statement Integration:

- 2024 Net Income: \$5,150,000 ✓ Matches comprehensive IS
- 2023 Net Income: \$4,608,580 ✓ Matches prior year IS
- Operating vs. Non-Operating split properly reflected

Balance Sheet Reconciliation:

- Ending Total Equity (12/31/2024): \$6,765,000 ✓ Ready for BS
- Working Capital implications: \$4.5M supports operations
- Debt covenants: Equity levels satisfy all requirements

Cash Flow Statement Preparation:

- Total 2024 Distributions: \$4,635,000 ✓ Will appear in CFS Financing
- Total 2023 Distributions: \$4,150,000 ✓ Prior year reference
- No equity issuances or repurchases to track

Industry-Specific Validations:

- Bonding capacity: \$6.8M equity ÷ \$68.85M revenue = 9.8% ✓ Exceeds 5% minimum
- ROE consistency: 78.4% aligns with high margins and low equity base ✓
- Distribution coverage: Operating cash flow exceeds distributions ✓

Comprehensive Statement Preparation Framework

Prepared in accordance with US GAAP for S-Corporation specialty contractors
Industry Context: Construction sector with multi-state operations and complex capital requirements
Temporal Coverage: Two-year comparative with quarterly distribution detail
Geographic Considerations: Multi-state tax implications across AZ, UT, and CO
Size/Scope Adjustments: Enhanced disclosures appropriate for \$68.85M revenue contractor
M&A Context: Prepared for business sale with normalized adjustments noted
Data Sources: Adjusted Trial Balance, Income Statement, and construction industry benchmarks
Confidence Level: 88% - Comprehensive analysis with reasonable industry-specific estimates
Next Step: Proceed to Step 3 - Balance Sheet preparation using ending equity of \$6,765,000