

KAMEL POTTERIES - WORKING CAPITAL & BALANCE SHEET MEMO

STOCK VALUATION & PURCHASE PRICE ADJUSTMENT

Date: October 21, 2025

Period: September 30, 2025 Balance Sheet

EXECUTIVE SUMMARY

Enterprise Value vs Equity Value

- **Enterprise Value:** R2.0-2.5M (based on 3.5-4.5x EBITDA)
- **Working Capital:** R300,000+ (including stock)
- **Total Transaction Value:** R2.3-2.8M+

1. STOCK ON HAND VALUATION

Current Stock Position (Sept 30, 2025)

Category	Value (R)	Notes
Raw Materials	85,000	Clay, glazes, chemicals
Work in Progress	45,000	Partially completed items
Finished Goods	170,000	Ready for sale
TOTAL STOCK	**300,000**	Physical count verified

Stock Composition

- **Raw Materials (28%):** Production supplies for 2-3 months
- **WIP (15%):** Current production orders
- **Finished Goods (57%):** Completed inventory

Valuation Method

- **At Cost:** R300,000 (recommended for sale)
- **No obsolete stock identified**
- **All stock is current and saleable**

2. WORKING CAPITAL CALCULATION

Current Assets

Item	Amount (R)	Notes
Stock/Inventory	300,000	As above
Trade Debtors	1,250,000	~45 days sales
Prepayments	25,000	Insurance, licenses
Total Current Assets	**1,575,000**	

Current Liabilities

Item	Amount (R)	Notes
Trade Creditors	680,000	~42 days purchases
Accruals	45,000	Utilities, wages
VAT Payable	38,000	Current month
Total Current Liabilities	**763,000**	

Net Working Capital

Current Assets: R1,575,000 Less: Current Liabilities: (R763,000)
 ----- NET WORKING CAPITAL: R812,000

Normalized Working Capital

Target Working Capital (industry standard): - Stock: 45 days of COGS = R300,000 ✓ - Debtors: 45 days sales = R1,163,000 ✓ - Creditors: 45 days purchases = (R680,000) ✓ - Net Working Capital Target: R783,000 Actual vs Target: R812,000 vs R783,000 Surplus: R29,000

3. PURCHASE PRICE STRUCTURE

Option 1: Including Working Capital

Component	Amount (R)
Enterprise Value (4x EBITDA)	2,272,400
Plus: Stock at Cost	300,000
Plus: Net Working Capital (excl. stock)	512,000
Total Purchase Price	**3,084,400**

Option 2: Enterprise Value Plus Stock Only

Component	Amount (R)
Enterprise Value (4x EBITDA)	2,272,400
Plus: Stock at Cost	300,000
Total Purchase Price	**2,572,400**

Option 3: Locked Box Deal

Component	Amount (R)
Enterprise Value (4x EBITDA)	2,272,400
Working Capital Adjustment	812,000
Less: Normalized WC	(783,000)
Total Purchase Price	**2,301,400**

4. BALANCE SHEET SUMMARY

Assets Being Transferred

Asset Category	Book Value (R)	Sale Value (R)
Current Assets:		
Stock	300,000	300,000
Trade Debtors	1,250,000	1,250,000
Prepayments	25,000	25,000
Fixed Assets:		
Plant & Equipment	450,000	Included in EV
Vehicles	180,000	Included in EV

Asset Category	Book Value (R)	Sale Value (R)
Office Equipment	65,000	Included in EV
Total Assets	**2,270,000**	

Liabilities Assumed

Liability Category	Amount (R)
Trade Creditors	680,000
Accruals	45,000
VAT Payable	38,000
Total Liabilities	**763,000**

Net Assets Transferred

Total Assets: R2,270,000 Less: Liabilities: (R763,000) ----- NET
ASSETS: R1,507,000

5. KEY CONSIDERATIONS FOR NEGOTIATION

Stock Specific Issues

- ✓ **Quality:** All stock current and saleable
- ✓ **Count:** Physical verification recommended at closing
- ✓ **Obsolescence:** No provision required
- ✓ **Seasonality:** Normal levels for October

Working Capital Points

- Current WC slightly above normalized level (+R29,000)
- Debtors collection period: 45 days (acceptable)
- No bad debt provision required
- Creditors well managed

Recommended Approach

1. **Agree Enterprise Value:** R2.0-2.5M based on EBITDA
2. **Add Stock at Cost:** R300,000 (verified by count)

3. **Working Capital:** Either included or separate negotiation

4. **Total Deal Value:** R2.3-2.8M range

6. PROPOSED DEAL STRUCTURE

Most Likely Scenario

Enterprise Value (3.75x EBITDA): R2,130,375	Plus: Stock at Cost: R300,000	Working Capital
Adjustment: R0	TOTAL TRANSACTION VALUE:	
R2,430,375		

Payment Terms Suggestion

- Cash at Closing: R1,430,375 (59%)
- Vendor Finance: R1,000,000 (41%)
- Term: 3 years
- Interest: Prime + 2%
- Security: Business assets

7. DUE DILIGENCE REQUIREMENTS

Stock Verification

- ☐ Physical stock count at closing
- ☐ Age analysis of inventory
- ☐ Obsolete stock assessment
- ☐ WIP valuation check

Working Capital

- ☐ Debtors age analysis
- ☐ Bad debt assessment
- ☐ Creditors reconciliation
- ☐ Cut-off procedures

Documentation Required

- ☐ Detailed stock listing

- [] Debtors ledger
- [] Creditors ledger
- [] Bank reconciliations
- [] VAT returns

CONCLUSION

The R300,000 stock value is **additional** to the enterprise valuation based on EBITDA. This represents normal operating inventory levels and should transfer at cost.

Recommended Total Transaction Value: R2.4-2.6M

- Enterprise Value: R2.1-2.3M
- Stock: R300,000

This maintains the integrity of the EBITDA-based valuation while properly accounting for working capital assets.

Prepared by: Financial Analysis

Status: Ready for Negotiation