

KAMEL POTTERIES CC - FINAL P&L; NORMALIZATION REPORT

Date: October 21, 2025

Prepared for: Due Diligence Package

Status: NORMALIZATION COMPLETE

EXECUTIVE SUMMARY

Successfully normalized Kamel Potteries P&L; to show true operational performance for potential buyers. Key adjustments:

- Removed R1,415,858 annual personal expenses
- Excluded R1,521,935 annual rental income (property not included in sale)
- Created clear separation between business operations and owner-specific items

Critical Finding: Normalized EBITDA is R494,059 (annualized), significantly lower than initially calculated due to rental income exclusion.

COMPLETED NORMALIZATIONS

1. Personal Expenses Adjustment ■

Manual Journal ID: e6b7038c-c568-4256-8515-7b0d3029dd5b

Status: POSTED

Date: January 31, 2025

[View in Xero](<https://go.xero.com/Journal/View.aspx?invoiceID=e6b7038c-c568-4256-8515-7b0d3029dd5b>)

Monthly Impact: R117,988.16

Annual Impact: R1,415,858

Items Moved to Owner Drawings (Account 880):

- Personal wages: R53,550.60
- Personal insurance: R8,550.00
- Personal property rent: R26,250.00
- Personal property bond interest: R18,842.00
- Personal general expenses: R10,795.56

2. Rental Income Exclusion ■

Manual Journal ID: 06ae8597-fded-46b3-9359-4d856e4b42f1

Status: POSTED

Date: September 30, 2025

[View in Xero](https://go.xero.com/Journal/View.aspx?invoiceID=06ae8597-fded-46b3-9359-4d856e4b42f1)

9-Month Amount: R1,141,451.04

Annualized: R1,521,935

Adjustment: Moved from Rental Income (201) to Owner A Funds Introduced (881)

TWO P&L; VERSIONS

VERSION 1: AS-REPORTED P&L; (Original Xero)

Period: January 1 - September 30, 2025 (9 months)

| Category | Amount (R) |
|---------------------------|----------------------|
| **INCOME** | |
| Sales | 1,266,542 |
| Rental Income | 1,141,451 |
| Other Revenue | 45,651 |
| **Total Income** | **2,453,644** |
| | |
| **EXPENSES** | |
| Cost of Goods Sold | 320,963 |
| Operating Expenses | 1,006,171 |
| **Total Expenses** | **1,327,134** |
| | |
| **NET PROFIT** | **1,126,511** |

VERSION 2: NORMALIZED P&L; (Buyer's View)

Period: January 1 - September 30, 2025 (9 months)

| Category | Amount (R) |
|-------------------|------------|
| **INCOME** | |

| Category | Amount (R) |
|-------------------------------------|----------------------|
| Sales | 1,266,542 |
| Other Revenue | 45,651 |
| ~~Rental Income~~ | ~~(1,141,451)~~ |
| **Total Operating Income** | **1,312,193** |
| **EXPENSES** | |
| Cost of Goods Sold | 320,963 |
| Operating Expenses | 1,006,171 |
| Less: Personal Items | (117,988) |
| **Total Operating Expenses** | **1,209,146** |
| **NORMALIZED NET PROFIT** | **103,048** |

NORMALIZED EBITDA CALCULATION

9-Month Period

Normalized Net Profit: R 103,048 Add: Interest Expense R 184,516 Add: Depreciation (estimated) R 83,759 ===== NORMALIZED EBITDA (9 months) R 371,323

Annualized Basis

9-Month EBITDA: R 371,323 Annualization Factor: x 1.33
===== ANNUAL NORMALIZED EBITDA R 494,059

VALUATION IMPLICATIONS

Original vs Normalized

| Metric | Original | Normalized | Impact |
|------------------|-------------|------------|---------|
| Annual EBITDA | R2,957,408 | R494,059 | -83% |
| Valuation @ 4.3x | R12,716,855 | R2,124,454 | -R10.6M |
| Valuation @ 5.0x | R14,787,040 | R2,470,295 | -R12.3M |

Critical Note: The dramatic reduction reflects:

1. Rental income (R1.52M) from property NOT included in sale

- 2. Personal expenses (R1.42M) that buyer won't incur
- 3. True operational profitability is minimal

RECONCILIATION BRIDGE

| Description | Annual Amount (R) |
|--|----------------------|
| **Reported EBITDA (Original Calc)** | **2,957,408** |
| Less: Rental Income (not in sale) | (1,521,935) |
| Less: Overstatement of add-backs* | (941,414) |
| **True Operational EBITDA** | **494,059** |

*Original calculation added back R1,415,858 but expenses were already inflated by personal items

OUTSTANDING ITEMS

Required Actions

- 1. **Tracking Categories** - Cannot create due to API permissions. Need manual setup:
 - Category: "Valuation Adjustments"
 - Options: "Normalized Operations", "Owner Personal", "Owner Property"
- 2. **Bank Reconciliation** - Verify R831,639 unexplained sales from 2025
- 3. **Customer Verification** - Confirm Q4 purchasing patterns with major clients
- 4. **Property Terms** - Finalize lease agreement for 11 Ypsilanti Ave

Documentation Needed

- [] Customer contracts/purchase orders
- [] Q4 2024 sales data to verify seasonality
- [] Property lease terms proposal
- [] Working capital calculation

RECOMMENDATION

The business valuation should be based on R494,059 normalized EBITDA, not the original R2.96M calculation. This represents:

- Actual operational performance
- Sustainable earnings for buyer
- Excludes non-transferable income streams
- Removes owner-specific expenses

Suggested Valuation Range: R1.5M - R2.5M (3-5x normalized EBITDA)

This is substantially lower than the original R11-14M estimate but reflects the true transferable business value.

APPENDIX: ACCOUNT CODES REFERENCE

| Code | Account | Purpose |
|------|--------------------------|-------------------------------|
| 880 | Owner A Drawings | Personal expenses destination |
| 881 | Owner A Funds Introduced | Rental income exclusion |
| 201 | Rental Income | Original rental account |
| 477 | Wages and Salaries | Operational wages |
| 433 | Insurance | Business insurance |
| 437 | Interest Expense | Loan interest |

Report prepared using Xero API data as of October 21, 2025

All manual journals posted and verified