

Comparison of Financial Metrics for LTIP Performance Payouts

| Metric | Definition | CEO Control & Strategic Fit | Pros | Cons |
|------------------------------|---|--|--|---|
| EBITDA | Earnings before interest, taxes, depreciation, and amortization. | ✔ High control – reflects operational efficiency and profit strategy. | Core profit metric; aligns with operational performance; not skewed by taxes or financing. | Can be inflated short-term by cutting key spend; ignores capex needs. |
| Enterprise Value (EV) Growth | Increase in company value based on discounted cash flow (DCF) of future free cash flows and terminal value. | ✔ Strategic fit – aligns with long-term value creation and investor returns. | Ultimate value creation metric; aligns with company valuation for potential exit/IPO. | Requires modeling; doesn't translate to short-term ops performance. |
| Free Cash Flow (FCF) | Operating cash flow minus capital expenditures; measures real cash generated from operations. | ✔ Medium control – influenced by operating decisions and capital investments. | Real measure of liquidity and long-term sustainability. | Volatile due to capex timing; influenced by working capital shifts. |
| Revenue Growth | Total top-line sales growth, before costs or expenses. | ✔ High control – directly linked to CEO's growth strategy and go-to-market execution. | Easy to understand and measure; encourages growth focus. | Can incentivize growth at all costs without profit discipline. |
| Net Income | Profit after all costs, taxes, and interest — the bottom line of the income statement. | ✖ Low control – impacted by tax rates, interest, and accounting rules. | Standard GAAP metric; reflects final profitability. | Not reflective of actual operating performance in private firms. |
| EBIT | Earnings before interest and taxes; includes depreciation and amortization. | ⚠ Partial control – includes non-cash elements not directly tied to daily ops. | Includes impact of asset investment through depreciation. | Can be distorted by accounting rules; less clear than EBITDA. |

NOTE:

It's considered best practice to use **Enterprise Value (EV) Growth** or **EBITDA** as LTIP performance metrics instead of Net Income. These metrics better reflect the CEO's operational impact and long-term value creation, without being skewed by taxes, interest, or accounting treatments outside of their control.

This table outlines the definitions, **pros**, and **cons** of each financial metric from a private company CEO LTIP design perspective, helping clarify alignment with private companies' strategic goals.

LTIP Calculation Based on EBITDA Performance

| Income Statement | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | \$61,988,811 | \$68,000,000 | \$72,273,921 | \$76,465,225 | \$80,581,323 | \$84,628,512 |
| COGS | \$37,392,078 | \$41,018,069 | \$43,596,128 | \$46,124,351 | \$48,607,210 | \$51,048,502 |
| Gross Profit | \$24,596,733 | \$26,981,931 | \$28,677,794 | \$30,340,874 | \$31,974,113 | \$33,580,010 |
| SG&A | \$12,389,730 | \$13,591,188 | \$14,445,419 | \$15,283,136 | \$16,105,823 | \$16,914,736 |
| EBITDA | \$12,207,003 | \$13,390,743 | \$14,232,375 | \$15,057,737 | \$15,868,291 | \$16,665,274 |
| Depreciation | \$1,200,000 | \$1,316,367 | \$1,399,103 | \$1,480,239 | \$1,559,920 | \$1,638,267 |
| Amortization | \$40,000 | \$40,000 | \$40,000 | \$40,000 | \$40,000 | \$40,000 |
| EBIT | \$10,967,003 | \$12,034,376 | \$12,793,272 | \$13,537,498 | \$14,268,371 | \$14,987,007 |
| Interest expense | \$600,000 | \$600,000 | \$600,000 | \$600,000 | \$600,000 | \$600,000 |
| Pretax Income | \$10,367,003 | \$11,434,376 | \$12,193,272 | \$12,937,498 | \$13,668,371 | \$14,387,007 |
| Income taxes (1.5%) | \$152,355 | \$171,516 | \$182,899 | \$194,062 | \$205,026 | \$215,805 |
| NET INCOME | \$10,214,648 | \$11,262,860 | \$12,010,373 | \$12,743,436 | \$13,463,345 | \$14,171,202 |

| FY25 EBITDA Performance Target | | | |
|--------------------------------|-------------|--------------------|-----------|
| EBITDA Goal \$M | Perf Metric | Payout % of Target | Level |
| \$12.05 | 90% | 50% | Threshold |
| \$13.39 | 100% | 100% | Target |
| \$14.73 | 110% | 150% | Max Cap |

Note: Any perf achievement of goal above 110% will be capped at 150% payout % of Annual Bonus Target, and any below 50%, will receive no payout

| FY25 Actual EBITDA Result and Final LTI | | |
|---|--------------|-----------------------|
| EBITDA \$M | Attainment % | Final LTIP Payout \$M |
| \$12.70 | 94.84% | \$148,416 |

| Final Total Direct Comp | |
|-------------------------|-----------|
| Full Year TDC | |
| Base Salary | \$350,000 |
| STI Target % | 50.0% |
| STI Cash | \$175,000 |
| TTCC: | \$525,000 |
| Final LTI Cash | \$148,416 |
| TTDC: | \$673,416 |

Performance Metric Forecasting: Historical financial data (2022-2024) was used to project the company's Income Statement for 2025-2029, establishing a clear baseline for setting performance targets.

Performance-Payout Matrix (Interpolated):

- **Threshold (90%):** An EBITDA of \$12.05M triggers a 50% payout of the LTIP target.
- **Target (100%):** An EBITDA of \$13.39M provides a 100% payout of the LTIP target.
- **Maximum (110%):** An EBITDA of \$14.73M caps the payout at 150% payout of the LTIP target.
- **No Payout Rule:** Any performance below 90% of target EBITDA results in zero pay out.
- **Interpolation:** For any performance between these levels, payout is calculated using straight-line interpolation.

Interpolated Calculation: Actual EBITDA for FY25 is \$12.70M (94.85% of target). This is between 90% and 100%, resulting in a 74.23% payout of the \$200,000 LTIP target.

Final Result: The final LTIP payout for FY25 is \$148,469, reflected in the Total Direct Compensation (TDC) calculation.

LTIP Calculation Based on Enterprise Value (EV) Growth

| Assumptions | |
|----------------------|---------------|
| WACC / Discount Rate | 11.0% |
| Terminal Growth Rate | 4.0% |
| Rev Growth Rate | Base Forecast |

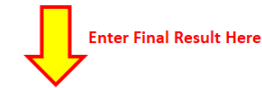
| Cash Flow Statement | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|-------------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | \$61,988,811 | \$68,000,000 | \$72,273,921 | \$76,465,225 | \$80,581,323 | \$84,628,512 |
| COGS | \$37,392,078 | \$41,018,069 | \$43,596,128 | \$46,124,351 | \$48,607,210 | \$51,048,502 |
| Gross Profit | \$24,596,733 | \$26,981,931 | \$28,677,794 | \$30,340,874 | \$31,974,113 | \$33,580,010 |
| SG&A | \$12,389,730 | \$13,591,188 | \$14,445,419 | \$15,283,136 | \$16,105,823 | \$16,914,736 |
| EBITDA | \$12,207,003 | \$13,390,743 | \$14,232,375 | \$15,057,737 | \$15,868,291 | \$16,665,274 |
| (-) Capex | \$2,450,000 | \$2,380,000 | \$2,529,587 | \$2,676,283 | \$2,820,346 | \$2,961,998 |
| (-) Taxes (1.5% for S-Corp) | \$146,355 | \$165,161 | \$175,542 | \$185,722 | \$195,719 | \$205,549 |
| (-) Change in working capital | \$225,419 | \$247,520 | \$263,077 | \$278,333 | \$293,316 | \$308,048 |
| Unlevered Free Cash Flow (FCF) | | \$10,598,061 | \$11,264,169 | \$11,917,399 | \$12,558,909 | \$13,189,679 |
| Undiscounted Terminal (FV) | | \$157,456,913 | \$167,353,361 | \$177,058,505 | \$186,589,507 | \$195,960,944 |
| Discounted Terminal Value (PV) | | \$141,853,075 | \$135,827,742 | \$129,463,653 | \$122,912,287 | \$116,293,282 |
| Discounted FCF | | \$9,547,803 | \$9,142,252 | \$8,713,900 | \$8,272,942 | \$7,827,432 |
| PV of Forecasted FCF | | \$9,547,803 | \$18,690,055 | \$27,403,955 | \$35,676,897 | \$43,504,330 |
| Total Company Enterprise Value (EV) | | \$159,797,612 | \$150,249,809 | \$141,107,557 | \$132,393,657 | \$124,120,715 |

(Used Gordon Growth
(Used DCF Formula)

| Enterprise Value Created | |
|---------------------------|---------------|
| Starting Enterprise Value | \$150,249,809 |
| Ending Enterprise Value | \$167,353,361 |
| Value Created | \$17,103,552 |

| FY26 EV Growth Performance | | | |
|----------------------------|-------------|--------------------|-----------|
| EV Growth Goal \$M | Perf Metric | Payout % of Target | Level |
| \$15.39 | 90% | 50% | Threshold |
| \$17.10 | 100% | 100% | Target |
| \$18.81 | 110% | 150% | Max Cap |

Note: Any perf achievement of goal above 110% will be capped at 150% payout % of Annual Bonus Target, and any below 50%, will receive no payout



Enter Final Result Here

| FY26 Actual Enterprise Value (EV) Growth and Final | | |
|--|--------------|----------------------|
| EV Growth (\$M) | Attainment % | Final LTIP Payout \$ |
| \$32.00 | 187% | \$300,000 |

| Final Total Direct Comp | |
|-------------------------|-----------|
| Full Year TDC | |
| Base Salary | \$350,000 |
| STI Target % | 50.0% |
| TTCC: | \$525,000 |
| Final LTI Cash | \$300,000 |
| TTDC: | \$825,000 |

Enterprise Value (EV) Forecasting: The model uses a Discounted Cash Flow (DCF) approach to project annual Enterprise Value (EV) from 2025 to 2029, leveraging key assumptions including a **WACC** of **11%** and a **Terminal Growth Rate** of **4%**.

Value Creation as a Performance Metric: The model calculates the difference between the **Starting Enterprise Value (\$150.25M)** and the **Ending Enterprise Value (\$167.35M)** for FY26, resulting in **Value Created** of **\$17.10M**.

Performance-Payout Matrix: Payouts are determined using a performance-to-payout matrix:

- **Threshold (90%)** of EV Growth (**\$15.39M**) triggers a **50% payout** of the LTIP target.
- **Target (100%)** of EV Growth (**\$17.10M**) provides a **100% payout** of the LTIP target.
- **Maximum (110%)** of EV Growth (\$18.81M) caps the **payout at 150%** of the LTIP target.
- Any performance **below 90%** of target EBITDA results in **zero pay out**.
- For any performance **between these levels**, payout is calculated using **straight-line interpolation**.

Actual Result and Payout Calculation: Actual EV Growth for FY26 is **\$32.00M**, which represents **187%** attainment of the target. Since this exceeds the **110%** cap, the payout is capped at **150%** of the original LTIP target of \$200k.

Final Result: The final LTIP payout is **\$300,000**, which is reflected in the Total Direct Compensation (TDC) calculation of **\$825,000**.