



Quality of Costs Audit

Business Name: Target.Co

Industry: Industrial Sensor Manufacturer

Revenue approximately \$18.0 million

Adjusted EBITDA approximately \$3.5 million

Prepared for lender and acquisition sponsor review on April 15th 2026.

This report evaluates whether Target.Co can sustain the operating cost base and supply continuity that support historical EBITDA. It is complementary to, and does not replace, financial quality of earnings, legal, tax, environmental, engineering, or insurance diligence.

Kindest Regards,

Michael Crocefoglia

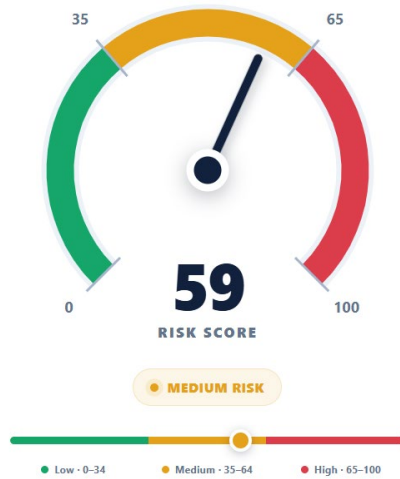
APS President & Founder

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APS CONCLUSION

Executive Summary

Operational Risk Profile



Target.Co has an attractive earnings profile resting on a cost base that is substantially uncontrolled. \$4.104 million of annual component purchases — 76% of component spend on the underwriting base — sits with suppliers for which no qualified alternate, formal contract, or approved substitution path was evidenced. A further \$810,000 is locked by customer requalification requirements, and \$406,608 of annualized tariff cost is exposed to origin data that remains unresolved for 6.4% of mapped spend. These are overlapping views of the same \$5.4 million spend base and are not additive. APS states these exposures as spend and does not convert them into an earnings effect; Module 5 sets out the drivers and sensitivity inputs so the lender and sponsor can apply their own assumptions.

\$5.4M underwriting spend base	76% single source component spend	\$4.10M single-source spend at risk	67 Parts at risk for obsolescence.
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Primary findings

- Supplier concentration appears moderate at the vendor level: the largest supplier represents 6.5% of source spend and the top ten represent 44.4%. This masks a more serious part-level issue because 76% of component spend is single sourced.
- Target.Co has no formal contracts with strategic suppliers, no approved alternate roadmap, and a typical component substitution cycle of six to seven months. Customer requalification requirements make approximately 15% of spend, or \$810,000, commercially non-moveable in the near term.
- Tariff modelling estimates \$406,608 of annualized current-state exposure. Country-of-origin fields are unresolved for 6.4% of mapped spend, weakening forecast reliability and increasing the risk of customs leakage.
- Review of assessed BOMs place 67 components across three BOMs as obsolete or at risk of being obsolete, and rated overall continuity risk moderate. One 59-part assembly contained six moderate-to-high-risk components; redesign and tendering indicated approximately \$190,000 of annual savings, increasing toward \$250,000 with redesign.
- Inventory is modeled as simultaneously overstocked in slow-moving C items and underprotected in critical A items. The report estimates \$220,000 to \$320,000 of reserve exposure and \$350,000 to \$550,000 of potential cash release, subject to a physical inventory and SKU-level aging analysis.

Credit view

The risks are remediable and do not, by themselves, invalidate the transaction. They support lender conditions focused on tariff-model refresh, critical-part continuity, inventory validation, and a Year 1 operating roadmap. The improvement case indicates \$450,000 to \$630,000 of achievable annual cost reduction.

NAVIGATION

Report Contents and Risk Rating

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Risk definitions

Every rating in this report describes the level of risk carried by the lender, not the quality of the underlying capability. The two move in opposite directions: the weaker the capability, the higher the risk rating. Low procurement maturity therefore produces high procurement control risk. A High rating always means more risk, never a better capability.

Risk rating	Meaning	Lender interpretation
High	A plausible event could materially impair supply, margin, or cash flow, and the controls that would prevent or absorb it are absent or unproven.	Require mitigation owner, deadline, and monitoring; consider close condition if near term.
Moderate	Exposure is meaningful, and can be reduced to a low level through identifiable actions within 3–12 months.	Include in downside case and require post-close reporting.
Low	Exposure is limited, or it is held down by effective controls and tested alternatives already in place.	Monitor through ordinary covenant and operating reporting.

Overall risk assessment

Risk area	Risk rating	Reason
Supplier and supply chain concentration risk	High	76% of component spend is single sourced; alternates and tooling condition are unverified.
Inventory quality and obsolescence risk	Moderate–High	No evidence of ABC policy; modeled slow-moving reserve and stockout exposure coexist.
Component continuity risk	Moderate	Six-to-seven-month substitution cycle and no approved alternate roadmap, against a moderate PCBA lifecycle risk rating.
Procurement control risk	High	No strategic contracts, no PPV baseline, no reliable OTIF measurement, and no supplier scorecards. Maturity is low, so the risk it leaves behind is high.
Operational spend at risk	High	\$4.10M of annual component spend single sourced without a qualified alternate.

MODULE 1

Scope and Diligence Procedures

APS performed a Quality of Costs review to evaluate the durability of Target.Co's material cost base, supply continuity, inventory practices, and procurement controls.

Procedures performed

1. Reconciled FY23/24 purchasing schedules, tariff simulation output, and the Top 20 savings schedule to an underwriting spend base of \$5.4 million.
2. Calculated category and supplier concentration, identified high-spend purchased components, and assessed the difference between vendor concentration and single-source part exposure.
3. Mapped geographic spend using the tariff workbook and grouped unresolved country-of-origin fields to isolate the annual cost exposed to tariff and origin error.
4. Reviewed the three-BOM PCBA tender materials for lifecycle, supply, cost, geopolitical, and redesign findings.
5. Modeled an inventory aging and ABC segmentation case because SKU-level on-hand balances, forecasts, and aging were not included in the source package.
6. Scored procurement maturity across strategy, contracts, supplier management, systems, risk, and inventory planning.
7. Quantified the annual purchased cost exposed to each operational condition, stated as spend and reported without conversion into an earnings effect.

Evidence standard

Observed findings are drawn from the supplied files or management facts provided for this sample. Modeled findings are explicitly identified and should be validated through management interviews, supplier confirmations, inventory observation, customer qualification records, and a refreshed tariff review before credit approval.

Evidence class	Examples in this report
Observed	Spend totals, supplier concentration, geographic mapping, tariff model output, PCBA BOM review, RFQ savings schedule.
Management supplied	Revenue, EBITDA, 50/50 make-to-stock and make-to-order mix, 1,000 active SKUs, 5,000+ components, 76% single-source spend, six-to-seven-month substitutions, 15% non-moveable spend.
Modeled	Inventory aging, reserve, service levels, revenue dependency, probability weighting, and realized improvement case.

MODULE 1

Operating Profile and Data Reliability

\$18.0M revenue	\$3.5M EBITDA	1,000 active SKUs	5,000+ components
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Target.Co designs and manufactures industrial water-quality sensors, probes, transmitters, and related assemblies. Final manufacturing and assembly are performed internally, while PCBAs and a broad range of electronic, cable, machined, molded, chemical, and precious-metal inputs are externally sourced. Production is approximately 50% make to stock and 50% make to order.

Data reliability findings

Finding	Diligence impact	Priority
Spend schedules do not reconcile to one total	\$5.133M in the consolidated purchasing schedule, \$5.277M in the geographic pivot, \$5.594M in the opportunity file, versus \$5.4M management base.	High
Country fields include Review Unknown and Closed	6.4% of geographic spend cannot be confidently assigned to an origin.	High
Commodity taxonomy is inconsistent	Electronic and Electronics, Cable and cable, and blank classifications reduce category visibility.	Moderate
OTIF exists but is considered inaccurate	Delivery performance cannot be relied upon for safety stock or supplier decisions.	High
No standard price or PPV baseline	Historic price movement cannot be separated cleanly from mix and volume changes.	High

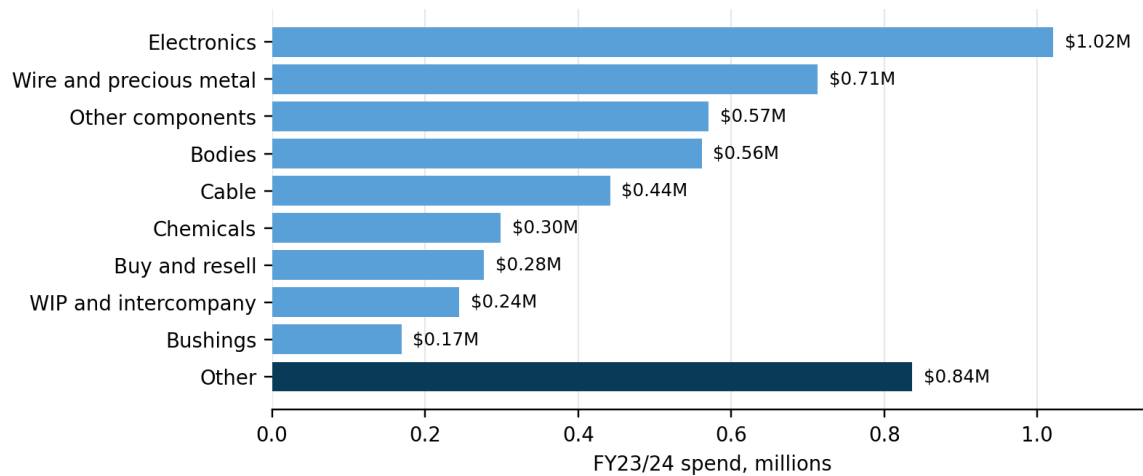
Underwriting treatment

APS uses \$5.4 million as the report's underwriting denominator because it was provided as the transaction spend base. Percentages calculated from source schedules retain the source denominator and are labeled accordingly. Dollar equivalents of management-supplied percentages use the \$5.4 million base. The difference among schedules is a control finding, not an immaterial rounding issue: the high-to-low range is approximately \$461,000, equal to 13.2% of EBITDA.

Before close, Target.Co should deliver one twelve-month purchase-price-variance-ready spend cube with normalized supplier, commodity, site, item, country of origin, currency, and incoterm fields. The lender should receive a reconciliation from the spend cube to the trial balance and inventory purchases.

MODULE 1

Spend Baseline and Category Exposure



Source: consolidated FY23/24 purchasing schedule; \$5.133 million source total. Categories have been normalized for presentation.

Electronics, wire and precious metals, bodies, cable, chemicals, and finished-product purchases dominate the external cost base. The mix creates three distinct underwriting exposures: commodity volatility in precious metals, qualification and lifecycle risk in electronics and PCBAs, and tooling or transfer risk in custom molded and machined parts.

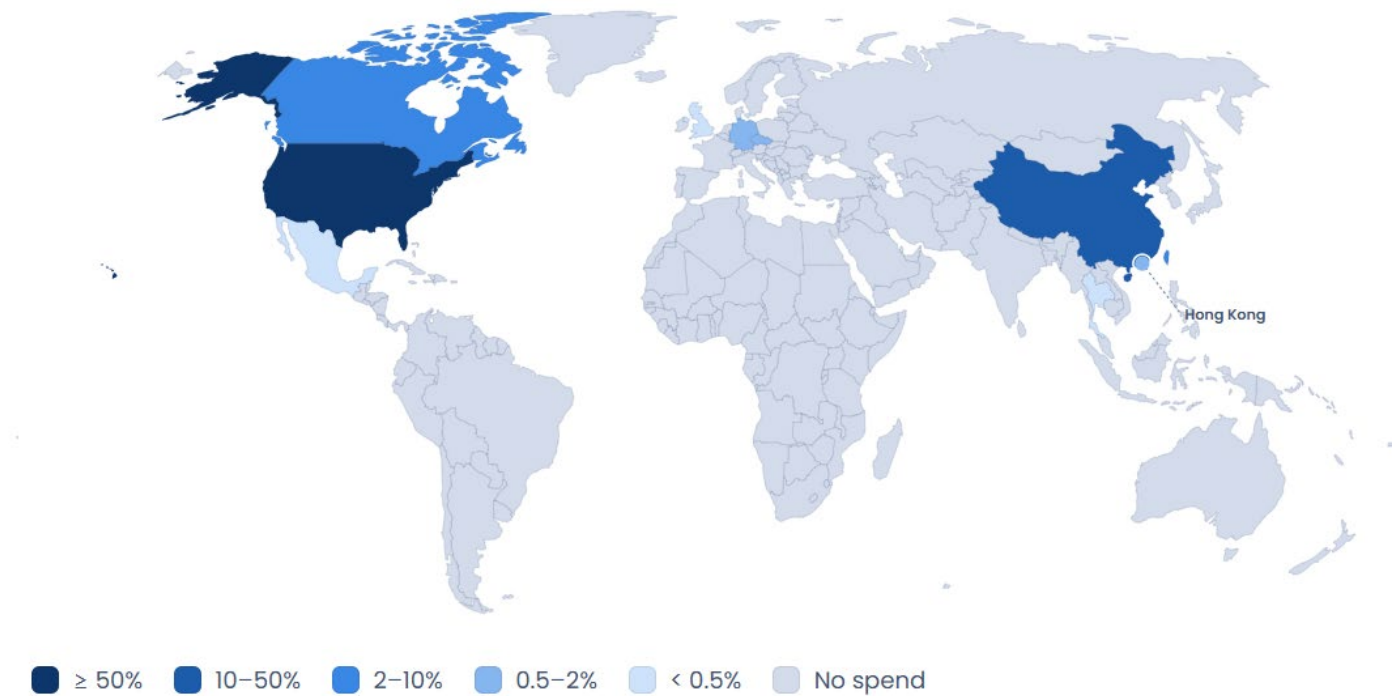
Spend lens	Source result	Interpretation
Electronic category	\$1.021M 19.9%	Largest category; continuity and approved-alternate discipline are more important than unit price alone.
Wire category	\$0.713M 13.9%	Includes silver, gold, and platinum exposure; spot buying creates margin volatility.
Bodies	\$0.562M 10.9%	Custom parts may depend on tooling whose age, condition, storage, and transfer rights are unknown.
Cable	\$0.442M 8.6%	Meaningful Asia exposure and a practical dual-source or specification-standardization opportunity.
Unclassified and inconsistent labels	At least \$97K visible	Actual affected spend is likely higher because several taxonomies overlap or are blank.

Cost movement

The consolidated purchase schedule shows FY23/24 spend of \$5.133 million versus \$4.239 million in FY18/19, an increase of approximately \$895,000 or 21.1%. Because quantities and product mix changed materially, this should not be presented as inflation or PPV. The absence of a standard-cost baseline prevents a clean separation of price, volume, mix, foreign exchange, and tariff effects.

MODULE 1

Geographic Exposure and Tariff Sensitivity



At a glance

\$5.28M

Total sourced spend reviewed · 10 countries

62.9%

Runs through the United States

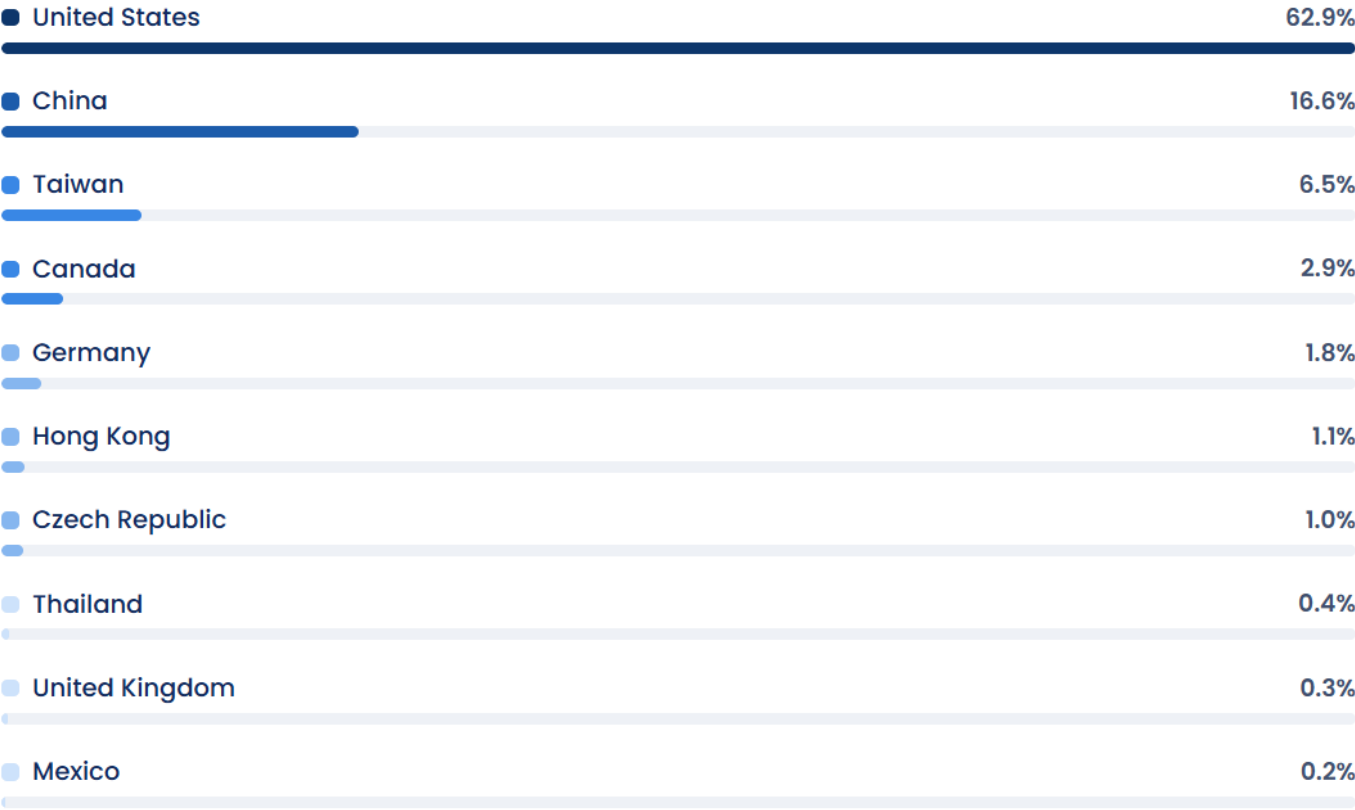
Single-country concentration — a dependency to weigh even though U.S. supply risk is rated low.

24.6%

Flows through high-risk geographies

China, Taiwan, Hong Kong & Thailand — plus 6.4% unresolved, itself flagged high-risk.

Spend by country



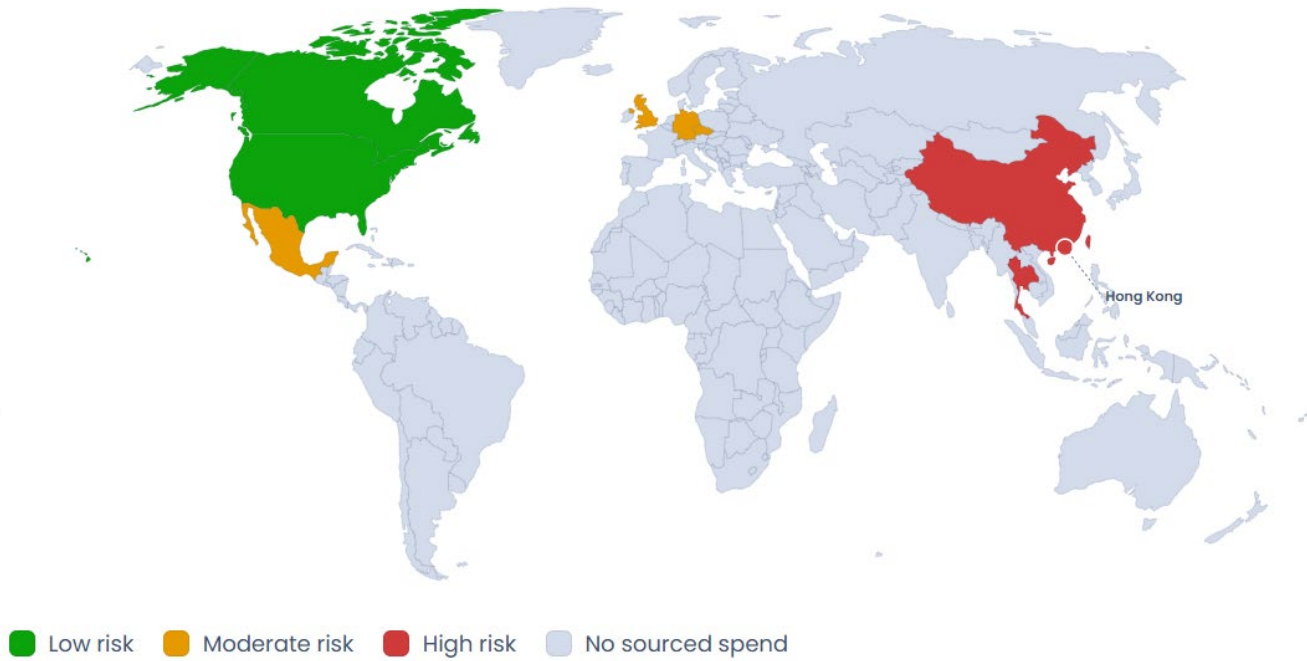
HIGH **Unresolved data — \$0.34M · 6.4%.** Origin not yet traced, so it can't be placed on the map. Treated as high-risk until resolved.

Geographic spend heat map based on \$5.277 million source mapping. Risk reflects tariff, geopolitical, qualification, and data-quality considerations, not supplier quality.

Spend concentration

Supply risk

Green low · amber moderate · red high supply risk.



Spend by country



HIGH Unresolved data — \$0.34M · 6.4%. Origin not yet traced, so it can't be placed on the map. Treated as high-risk until resolved.

The source tariff model dated May 12, 2025 estimates \$406,608 of annualized current-state tariff cost. It includes approximately \$124,669 associated with China, \$21,841 with Taiwan, \$11,399 with Hong Kong, \$2,180 with Thailand, and substantial values assigned through U.S., Czech, review, and unknown classifications. Those classifications show that supplier address and country of origin are not consistently distinguished.

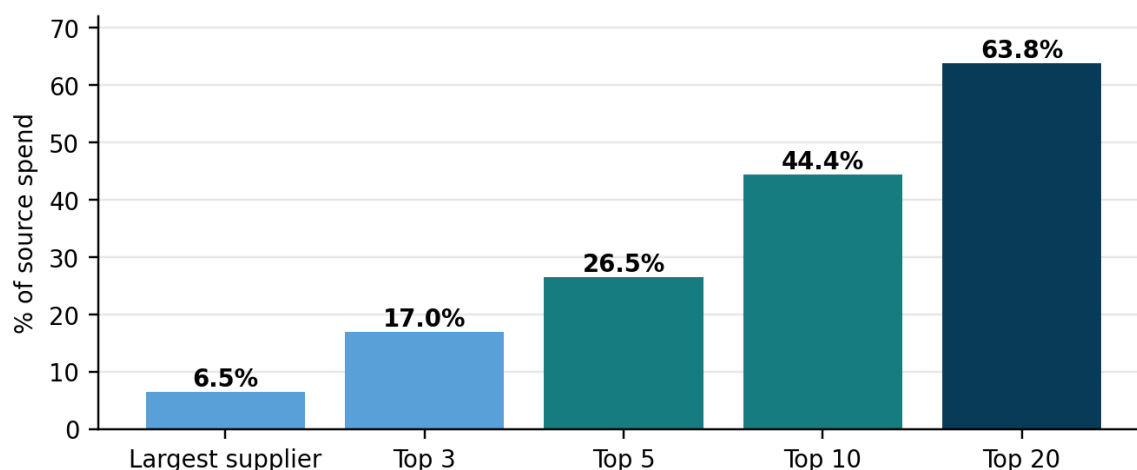
The \$406,608 is the annual cost currently exposed to tariff and origin classification, not a loss estimate. How much of it is retained depends on price recovery, sourcing changes, duty engineering, and classification corrections; that recovery assumption belongs to the lender and sponsor and APS does not apply one here. Tariff rates and exemptions are policy-sensitive; the model should be refreshed immediately before closing using verified HTS codes, origin affidavits, and current entry data.

Required actions

- Resolve country of origin for every A/B item and all unresolved spend.
- Reconcile broker entry data to the item master and the tariff simulation.
- Separate supplier location, manufacturing location, substantial-transformation origin, ship-from country, and HTS classification.
- Add tariff pass-through and change-in-law language to customer and supplier agreements where commercially feasible.

MODULE 1

Supplier Concentration and Commercial Coverage



Source: consolidated FY23/24 purchasing schedule; \$5.133 million source total.

Vendor-level concentration is not the primary risk. The largest supplier represents 6.5% of source spend, the top five 26.5%, and the top ten 44.4%. These levels are manageable for a business of Target.Co's scale. The more serious issue is that a diversified vendor list still supplies mostly unique items with no qualified alternative.

Concentration view	Finding	Risk conclusion
Vendor concentration	Largest supplier 6.5%; top ten 44.4%.	Moderate and diversified on its face.
Part-level sourcing	76% of component spend single sourced, equal to \$4.104M on the underwriting base.	High; vendor diversity does not provide component redundancy.
Contract coverage	No formal strategic supplier contracts.	High; price, capacity, lead-time, quality, tooling, and exit rights are not secured.
Moveability	15% of spend, or \$810K, constrained by customer requalification.	High near-term rigidity; not all sourcing savings are immediately executable.
Substitution lead time	Six to seven months on average.	High interruption duration relative to normal working-capital buffers.

Commercial diligence implication

The lender should not use the top-supplier percentage as a proxy for continuity. A disruption to a supplier representing only 2% to 5% of spend can stop shipments if the supplier controls a unique material, validated process, customer-approved component, or custom tool. Criticality must therefore be linked from purchased part to BOM, finished SKU, customer approval, revenue, and gross profit. Recommendation is to link components to finished SKU pre-close to determine revenue at risk related to individual components, and cross-reference this with single source implications (see below).

MODULE 1

Critical Component Revenue Dependency

The source schedule contains several components with annual spend above \$70,000 and clear dependence on one named supplier. The concentration is significant because component cost is not a measure of revenue dependency: a low-cost seal, electrode, cable, or microcontroller can stop a high-value finished sensor.

Anonymized component	Annual spend	Source share	Primary risk	Required evidence
Critical sensor subassembly A	\$221K	4.3%	Single-source custom assembly	Capacity, process ownership, alternate qualification, revenue mapping
PCBA platform A	\$221K	4.3%	Lifecycle and contract manufacturer dependence	Approved BOM, last-time-buy process, redesign plan
Precious-metal subassembly A	\$208K	4.1%	Metal index and fabrication capacity	Index mechanism, metal ownership, recovery terms
Custom cable family A	\$129K	2.5%	Asia origin and specification dependence	Second source, drawing ownership, test requirements
Porous engineered component A	\$113K	2.2%	Unique material and process	Tooling record, alternate process, safety stock
Temperature component family A	\$106K	2.1%	Qualified electrical characteristic	AVL, qualification protocol, lifecycle status
PCBA platform B	\$104K	2.0%	CEM and BOM dependence	Alternate CEM package, test fixtures, golden sample
Precious-metal wire A	\$97K	1.9%	Commodity volatility	Index contract, hedge policy, scrap recovery

Revenue at risk method

Target.Co should map each critical purchased item to every finished SKU and trailing-twelve-month revenue line. Until that bridge is available, the moderate scenario assumes the top critical component families support 35% to 55% of revenue, or \$6.3 million to \$9.9 million. That revenue dependency, the observed six-to-seven-month substitution cycle, and the contribution-margin and recovery assumptions are the inputs required to size an interruption. APS reports the dependency and the substitution cycle; it does not apply a margin factor or a probability weighting to produce an earnings figure.

MODULE 2

Inventory Quality and Reserve Exposure

No complete on-hand inventory, aging, demand forecast, cycle-count history, or excess-and-obsolete reserve schedule was provided. The analysis below is a moderate diligence scenario built to reflect a 1,000-active-SKU, 5,000-plus-component manufacturer with mixed make-to-stock and make-to-order demand.

\$2.1M modeled inventory	2.6x modeled turns	140 days modeled inventory days	\$220–320K reserve exposure
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Aging segment	Modeled share	Modeled value	Treatment
0–90 days	52%	\$1.092M	Generally productive; validate against open demand and lead time.
91–180 days	20%	\$0.420M	Review MOQ, batch size, and forecast changes.
181–365 days	14%	\$0.294M	Excess candidate; link to active BOM and customer demand.
More than 365 days	14%	\$0.294M	Reserve or disposal candidate unless supported by service obligations or long lifecycle.

The likely failure mode is not simply too much inventory. Target.Co is modeled as overstocked in slow-moving legacy items while remaining underprotected on high-criticality A parts. This occurs when planners apply informal reorder points, repeat historical order quantities, or accept supplier MOQs without linking service level to item criticality and lead-time variability.

Lender implications

- A \$220,000 to \$320,000 incremental reserve would reduce tangible net worth and may affect the borrowing base, but it is not treated as recurring EBITDA risk.
- A \$350,000 to \$550,000 working-capital release is plausible over 9–15 months if disposal decisions, supplier returns, MOQ reductions, and planning controls are implemented.
- Inventory reductions must follow alternate qualification and service-level analysis; blanket reductions could increase stockout risk on the 76% single-sourced spend base.

MODULE 2

Excess and Obsolete Exposure by Consumption Velocity

36% of inventory value in C and D	\$756K C and D inventory value	64% of inventory value in A and B	\$208–313K modeled reserve requirement
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Module 2 segments inventory by receipt age. Age is the wrong controlling lens for excess and obsolete exposure, because a single small issue resets an item's age bucket in most ERP aging reports while its consumption rate remains near zero. A part carrying four years of coverage that was picked once last quarter appears in the 0–90 day bucket and reads as productive. This module therefore classifies inventory by how often it is actually consumed, and by how much coverage the on-hand position represents.

Velocity classification baseline

An item takes the lower of the two tests. Where consumption frequency and coverage disagree, coverage governs, because an item bought once in a twelve-month quantity is slow-moving regardless of how many times it was issued.

Class	Consumption frequency (trailing 12 months)	Coverage test	Diligence treatment
A — Fast	Issued in 10 or more of the last 12 months	On hand 3 months of supply or less	Productive. Excluded from E&O.
B — Moderate	Issued in 5 to 9 of the last 12 months	On hand above 3 and up to 6 months of supply	Productive. Monitor planning parameters.
C — Slow	Issued in 1 to 4 of the last 12 months	On hand above 6 and up to 12 months of supply	Excess candidate. Reserve on policy.
D — Dormant	No issue in the last 12 months	On hand above 12 months of supply, or no active BOM and no open customer demand	Obsolete candidate. Reserve and set a disposition path.

Three exclusions apply before classification: contractual service-parts and last-time-buy stock held against a support obligation, items introduced within the last twelve months, and items held against a firm dated customer order. Each is reported separately rather than reserved.

Modeled distribution

No issue history, on-hand file, or reserve schedule was provided. The distribution below is a moderate diligence scenario for a 1,000-active-SKU, 5,000-plus-component manufacturer operating without a formal inventory policy, applied to the \$2.1 million modeled inventory position in Module 2.

Velocity class	Share of SKUs	Share of value	Modeled value	Reserve policy applied
A — Fast	12%	38%	\$0.798M	None
B — Moderate	21%	26%	\$0.546M	None
C — Slow	34%	22%	\$0.462M	10% to 20%
D — Dormant	33%	14%	\$0.294M	55% to 75%
A and B combined	33%	64%	\$1.344M	No reserve
C and D combined	67%	36%	\$0.756M	\$208K to \$313K

Two-thirds of the part numbers carry roughly one third of the value. That shape is normal for a manufacturer supporting legacy product; what is not normal is holding it without a reserve policy, a disposition path, or a buy-stop on dormant items. The modeled reserve requirement of \$208,000 to \$313,000 is derived independently of Module 2 and corroborates the \$220,000 to \$320,000 range stated there.

Why the velocity view is larger than the aging view

Module 2 places 28% of inventory value beyond 181 days. This module places 36% in C and D. The difference is not a contradiction; it is the measurement gap described above. Items with intermittent small issues stay young on an aging report and slow on a velocity report, and it is the velocity reading that predicts whether the stock will ever be consumed. A lender should treat the velocity figure as the reserve-relevant one and the aging figure as a receipt-timing control.

Velocity is not criticality

A D-class item can still stop the line. Against a 76% single-sourced component base and a six-to-seven-month substitution cycle, a blanket purge of dormant stock would convert a reserve problem into a continuity problem. Every C and D item must be tested against the value-and-continuity overlay in the following module before any disposition decision: last-time-buy stock held for an obsolete component is correctly held at zero velocity, and a C1 item — low value, low movement, line-stopping — should be protected rather than purged. The two classifications answer different questions and are intended to be run together.

Data required to extend this model

- Item-level issue and receipt history for 24 months, with date and quantity, so velocity is measured across a full demand cycle rather than a single year.
- On-hand quantity and extended value by lot and location at one cut date, reconciled to the general ledger inventory balance.
- Active BOM linkage and open customer demand by item, to separate dormant-but-required from dormant-and-dead.
- Service-parts, warranty, and contractual support obligations by item, with expiry dates.
- The existing excess-and-obsolete reserve schedule and three years of write-off history, to test whether the current reserve has been maintained or deferred.
- New-product introduction dates, to exclude items under twelve months in the system from D classification.

Until this data is produced and a physical count is completed, the figures in this module are a scenario for underwriting sensitivity only and should not be booked as a reserve.

MODULE 2

ABC Safety Stock and Inventory Control Design

APS recommends segmenting inventory by annual usage value and then overlaying criticality. ABC alone is insufficient because inexpensive components can stop production. Every item should receive both a value class and a continuity class, such as A1 for high-value and production-critical or C1 for low-value but line-stopping.

Class	Indicative population	Spend coverage	Target service level	Review cadence	Primary policy
A / critical	10–15% of items	70–80%	98–99%	Weekly	Statistical safety stock; supplier commits; dual-source roadmap; executive exceptions.
B / important	20–25%	15–20%	95–97%	Biweekly or monthly	Min max by lead time and variability; quarterly parameter review.
C / routine	60–70%	5–10%	90–95%	Monthly or quarterly	Two-bin or periodic review; MOQ control; supplier consolidation; purge slow movers.

Recommended formula

Safety stock should equal the service factor multiplied by demand variation during replenishment lead time, with a separate buffer for lead-time variation where the data supports it. For intermittent MTO items, policy should use customer order coverage or make-to-order supply agreements rather than a normal-demand formula.

Control	Design
Demand signal	Use independent demand, BOM explosion, and service-parts demand separately; remove one-time projects and duplicate orders.
Lead time	Measure actual supplier confirmation-to-receipt performance; do not rely solely on item-master lead time.
Order quantity	Challenge MOQ and economic batch assumptions using carrying cost, shelf life, and obsolescence risk.
Exceptions	Require buyer-planner approval for excess coverage, expedites, and manual reorder-point overrides.
Governance	Monthly inventory council covering stockouts, past-due POs, slow movers, write-offs, and parameter changes.

Initial 60-day analysis

- Freeze new buys on more-than-365-day C items unless tied to firm demand.
- Identify A1 items with less than one validated replenishment cycle of coverage.
- Create disposition paths for return, rework, substitution, service stock, resale, and scrap.
- Measure forecast bias, inventory accuracy, and supplier lead-time variability before setting permanent buffers.

MODULE 3

PCBA Obsolescence and Product Continuity

The PCBA tender review examined three assemblies containing 78 listed parts and completed risk review on 67 components. The overall risk rating was moderate based on obsolescence, supply, cost, geopolitical, capacity, and demand factors. Part names and identifiers are anonymized in this report.

Assembly	Parts reviewed	Risk result	Diligence conclusion
PCBA platform A	59 total	6 moderate-to-high-risk parts	Design review required; one high-cost, supply-constrained legacy capacitor is a redesign candidate.
PCBA platform B	8 total	3 moderate-risk parts	CEM should manage lifecycle and approved substitutions under a formal change-control agreement.
PCBA platform C	11 total	8 low-risk parts identified	Lower observed exposure, but lifecycle monitoring and second-source evidence remain incomplete.
Overall	67 components risk reviewed across 78 listed parts	Moderate	Exposure can produce allocation, obsolescence, cost fluctuation, and inflated pricing.

Commercial evidence

The tender materials show current annual PCBA cost of approximately \$368,398 across the three assemblies. Competitive bids produced average annual savings of approximately \$190,000, with potential savings increasing toward \$250,000 after redesign of the high-cost legacy component. The outcome demonstrates both a cost opportunity and a governance weakness: substantial savings remained available because competitive sourcing and design-to-value were not embedded in the operating model.

Continuity control	Current state	Required state
Lifecycle monitoring	Periodic project review	Quarterly BOM health scan with EOL alerts and owner.
Approved alternates	Not systematically documented	AVL and form-fit-function alternate for every critical A1 item.
CEM responsibility	Implied rather than contracted	Written PCN, last-time-buy, excess liability, and component-substitution terms.
Design records	Not proven complete	Controlled Gerbers, BOM, firmware, test specification, fixtures, and golden samples.
Redesign governance	Reactive	Risk and savings pipeline ranked by revenue dependency and qualification lead time.

MODULE 3

Tooling Ownership and Qualification Constraints

Management states that Target.Co owns its tooling. Ownership alone does not establish operational control. Tool age, condition, cavity history, maintenance, storage location, insurance, identification, transfer rights, and production readiness are unknown. For custom bodies, caps, seals, and machined components, a tool can be the true single source even when drawings are available.

Evidence request	Why it matters	Lender priority
Tool register with asset ID supplier location and photos	Confirms existence, custody, and linkage to active revenue.	High
Ownership and bailment agreements	Establishes access, transfer, maintenance, insurance, and insolvency rights.	High
Condition and remaining-life assessment	Identifies near-term capex, scrap risk, and capacity limitations.	High
Duplicate tool or transfer plan	Reduces the six-to-seven-month substitution timeline.	Moderate-High
Drawing and process package	Determines whether another supplier can reproduce the part.	High

Customer qualification constraint

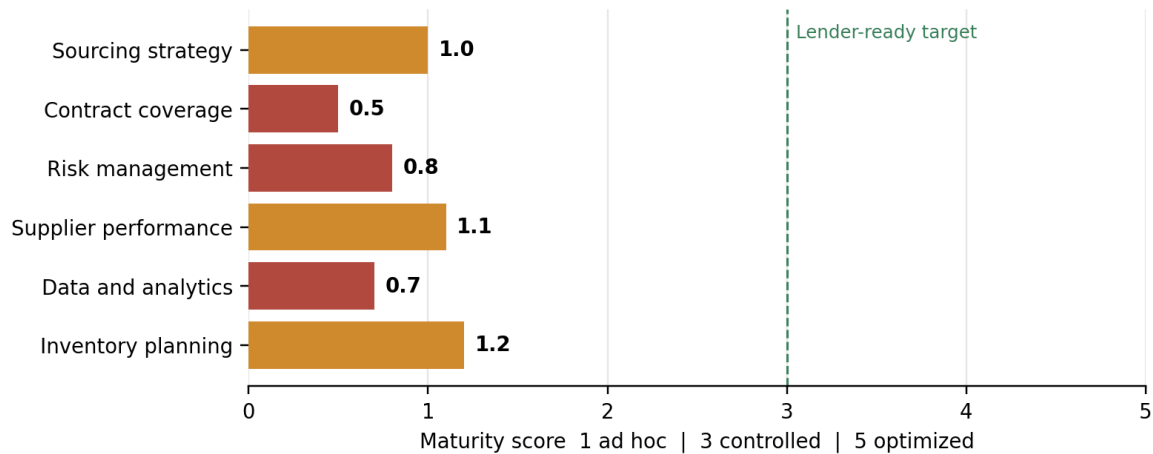
Approximately 15% of total spend, or \$810,000, is considered non-moveable in the near term because changes require customer requalification. This reduces the immediately contestable spend base and creates a separate continuity risk: Target.Co may be unable to respond quickly to supplier failure, tariff changes, or obsolescence without customer approval.

Recommended qualification portfolio

Tier	Criteria	Action
Tier 1	Customer-mandated component or process supporting material revenue	Obtain customer-approved contingency path before supplier event; consider last-time buy or strategic stock.
Tier 2	Internal qualification required with six-to-seven-month cycle	Launch parallel testing for alternate; pre-negotiate sample and validation plan.
Tier 3	Specification-controlled commercial item	Approve alternate manufacturer or distributor and document equivalence.
Tier 4	Routine noncritical item	Consolidate suppliers and use standard catalog specifications.

A customer qualification matrix should identify the customer, finished SKU, affected revenue, required test, submission package, approval duration, historical acceptance, and contractual change-notification period for every restricted component.

Procurement Maturity Assessment



APS maturity scale: 1 ad hoc, 2 repeatable, 3 controlled, 4 integrated, 5 optimized. Scores are based on supplied facts and observed data controls.

Dimension	Score	Key evidence	12 month target
Sourcing strategy	1.0	Competitive sourcing appears project-based; 76% single-source spend. No regular RFQ's	3.0
Contract coverage	0.5	No formal agreements with strategic suppliers.	3.0
Risk management	0.8	No approved-alternate roadmap; tooling evidence incomplete.	3.0
Supplier performance	1.1	Weak scorecards; OTIF exists but is inaccurate.	3.0
Data and analytics	0.7	No PPV or standard pricing; origin and category fields conflict.	3.0
Inventory planning	1.2	No formal ABC or service-level policy evidenced.	3.0

The average assessed score is 0.9 of 5, indicating an ad hoc procurement function. The issue is not simply staff capability; the operating system lacks contract standards, reliable data, decision rights, recurring category processes, and measurable supplier accountability.

Precious metals

Wire and precious-metal related purchases exceed \$900,000 across the source category views. Target.Co buys silver, gold, platinum, and fabricated subassemblies without an evidenced metal-risk policy. APS recommends indexed pricing or a natural hedge before financial derivatives. Contracts should separate metal content, fabrication conversion, yield loss, scrap credit, refining terms, and fixing date. A derivatives program should be adopted only with board-approved limits, qualified treasury support, and accounting review.

MODULE 4

Procurement KPIs and Management Controls

Target.Co should establish a small set of auditable measures before adding dashboards. Each metric must have a controlled definition, system source, owner, and reconciliation. OTIF should not be used for safety stock or supplier awards until receipt dates, requested dates, promised dates, split shipments, and quantity tolerances are standardized.

KPI	Definition	Initial target	Lender relevance
Supplier OTIF	Lines received in full by last confirmed promise date, with documented exceptions.	Validate baseline; then >95% for A suppliers.	Predicts interruption and inventory buffer needs.
Purchase price variance	Actual price versus approved standard at constant quantity and currency.	100% direct spend coverage.	Separates operating performance from mix and inflation.
Contract coverage	Strategic spend governed by current signed commercial terms.	>80% within 12 months.	Improves price, capacity, quality, and recovery rights.
Single-source exposure	Spend on active parts with one approved source.	Reduce 76% to <50% in 18 months.	Measures structural continuity improvement.
Critical BOM alternate coverage	A1 parts with qualified alternate or approved contingency.	>90% within 18 months.	Directly protects revenue and debt service.
Inventory health	Turns, excess, obsolete, stockouts, and forecast bias by ABC class.	Monthly review with action ownership.	Protects collateral and working capital.
Supplier quality	Incoming PPM, escapes, corrective-action closure, and cost of poor quality.	Baseline in 90 days.	Detects hidden cost and interruption risk.

Minimum contract terms

Strategic supplier agreements should address pricing and indices, forecast versus binding commitment, capacity reservation, lead time, OTIF, quality warranty, change notification, business continuity, audit rights, intellectual property, tooling and bailment, country of origin, tariff allocation, excess and obsolete liability, termination assistance, and dispute resolution. Terms must be tailored to the category and reviewed by transaction counsel.

MODULE 5

Operational Spend at Risk

\$4.10M single-source spend	\$810K requalification-locked	\$406.6K tariff-exposed cost	\$5.4M underwriting spend base
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Each row states the annual purchased cost exposed to that condition. The rows are overlapping views of one \$5.4 million spend base — critical components, tariff-exposed cost and metal content all sit inside the single-sourced total — and are deliberately not summed.

Exposure	Annual spend exposed	Basis and source
Single-source component spend	\$4.104M	76% of component spend on the underwriting base. No qualified alternate, formal contract, or approved substitution path evidenced.
Customer-requalification lock	\$810K	15% of total spend that cannot be moved without customer requalification, against a six-to-seven-month substitution cycle.
Top critical component families	\$1.199M	Eight components above \$70K of annual spend, each dependent on one named supplier. Subset of the single-sourced total.
Tariff-exposed cost	\$406.6K	Source tariff model dated May 12, 2025, annualized current state, before any recovery assumption.
Origin-unresolved spend	\$337.7K	6.4% of the \$5.277M mapped spend with unresolved country of origin. Drives customs leakage and weakens tariff-model reliability.
Unhedged metal content	Over \$900K	Wire and precious-metal purchases across the source category views, bought without an evidenced metal-risk or indexing policy.

These figures are measurements taken from the source purchasing schedule and tariff model. They state the annual cost exposed to each condition; they are not forecasts and no probability has been applied. APS has deliberately not converted them into an earnings effect, because that conversion rests on assumptions belonging to the lender and the sponsor rather than to the diligence provider: disruption duration against the observed six-to-seven-month substitution cycle, contribution margin on dependent revenue, the share of tariff cost retained after price recovery and duty engineering, and the probability and correlation applied across exposures that overlap.

RECOMMENDATIONS

Improvement Case and Underwriting Treatment

\$548.7K

gross RFQ target

\$190K

observed PCBA tender

\$450–630K

modeled cost reduction

\$350–550K

modeled cash release

APS has identified \$3.940 million of targeted spend, equal to 70.4% of its \$5.594 million source total, and \$548,678 of gross annual reduction.

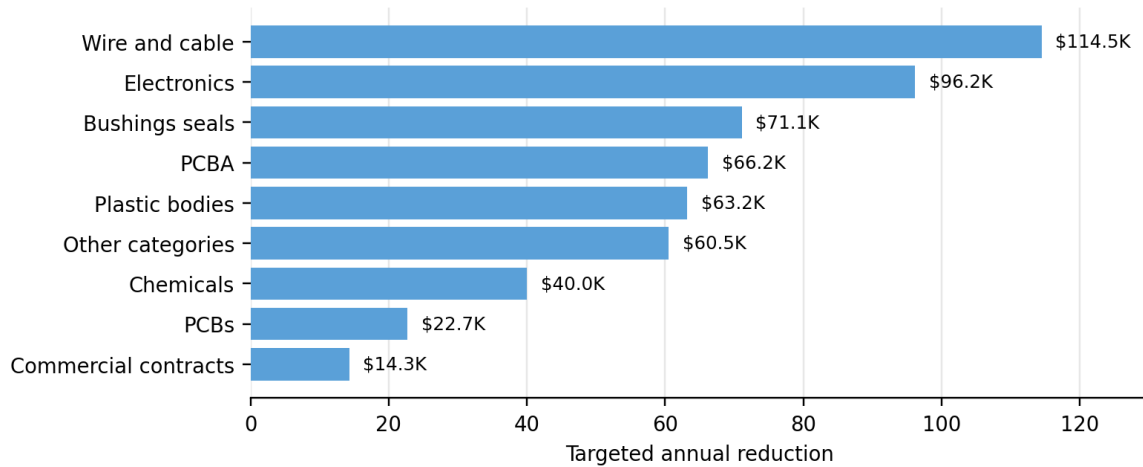
Value lever	Gross evidence	Modeled realized value	Underwriting treatment
Category RFQs	\$548.7K target	\$330–410K	Exclude from base case until bids and transition plans are approved.
PCBA tender and redesign	\$190–250K	\$100–170K incremental after overlap	Give credit only after samples, landed cost, and redesign qualification.
Tariff and origin mitigation	\$406.6K exposure	\$120–220K avoided cost	Treat primarily as downside protection.
Metal indexing and recovery	Not quantified in source	\$40–80K	Validate metal content and customer pass-through.
Implementation cost	Program staffing and qualification	\$(100)–\$(180)K one time	Fund in liquidity plan; do not net against recurring EBITDA after completion.
Inventory optimization	Modeled	\$350–550K cash release	Exclude from EBITDA; include only in post-close cash plan after validation.

Recommended lender view

Underwrite debt service to current validated EBITDA. The spend exposures in Module 5 should be carried into the downside case using the lender's own duration, recovery, and probability assumptions rather than a range supplied by APS. Treat the improvement plan as covenant headroom rather than as purchase-price support until savings are implemented and visible in invoices, standards, and gross margin. Preserve sufficient liquidity for qualification, tooling, last-time buys, and temporary dual-running costs.

RECOMMENDATIONS

Category RFQ Roadmap for Savings



Total targeted reduction is \$548.7K; amounts are gross targets before qualification and implementation cost.

Wave	Categories	Targeted spend	Target reduction	Approach
1 0–90 days	PCBA, electronics, cable	\$1.117M	\$277K	Finalize should-cost BOMs; competitive CEM bid; landed-cost normalization; alternate design plan.
2 60–150 days	Wire, precious metals, chemicals	\$1.545M	\$155K	Index metal content; separate conversion cost; aggregate volumes; set price-review formulas and scrap recovery.
3 120–240 days	Bushings, seals, plastic bodies	\$0.658M	\$134K	Tool audit; drawing validation; family RFQ; sample and process qualification; MOQ redesign.
4 180–300 days	PCBs, finished transmitters, other	\$0.690M	\$98K	Contract negotiation, alternate distribution, value engineering, and SKU rationalization.

Wave totals use category schedule values and may overlap with the opportunity workbook’s groupings; the sourcing office should rebuild one clean event pipeline before launch. Customer-restricted items should remain in the commercial-negotiation lane until requalification is approved.

RFQ evaluation standard

- Compare landed cost, duty, freight, payment terms, quality, lead time, MOQ, capacity, tooling, and transition expense—not unit price alone.
- Require open-book BOM and agreed component mark-up for PCBAs; the tender evidence supports a cost-plus range of 20% to 40% depending on services and risk allocation.
- Use weighted award criteria with continuity and qualification at least equal to commercial price for A1 components.
- Complete samples, first articles, process capability, customer approvals, and an approved savings baseline before changing the vendor list.

RECOMMENDATIONS

Year 1 Execution Plan

Timing	Action	Owner	Evidence of completion
Pre-close	Refresh tariff model; reconcile \$5.4M spend base; validate top 25 critical items and inventory reserve.	CFO and supply chain lead	Reconciled spend cube, broker data, critical-item bridge, signed reserve memo.
Days 1–30	Appoint procurement leader; freeze unapproved C-item buys; launch tool register and strategic contract templates.	CEO and COO	Named owners, governance calendar, tool inventory, counsel-approved templates.
Days 31–60	Complete ABC criticality segmentation; issue Wave 1 RFQs; confirm customer qualification requirements.	Procurement and engineering	Classified item master, bid packages, qualification matrix.
Days 61–100	Select PCBA and cable finalists; negotiate metal index terms; start alternate testing and supplier scorecards.	Cross-functional steering team	Award recommendation, test plans, signed term sheets, first scorecard.
Months 4–9	Execute Wave 2 and 3 sourcing; disposition excess inventory; qualify alternates and duplicate critical tools.	COO	Invoice-verified savings, inventory actions, approved alternates, tooling records.
Months 10–18	Reduce single-source spend below 50%; embed PPV and contract coverage reporting.	Executive team	Board and lender dashboard with reconciled KPIs.

Governance

A weekly integration meeting should manage sourcing events, qualifications, tooling, inventory, and customer approvals for the first 100 days. A monthly steering committee should approve exceptions and report realized savings, one-time cost, service performance, and risk reduction. The CFO should own financial validation; procurement should not self-certify savings.

Liquidity reserve

The buyer should reserve liquidity for qualification samples, engineering redesign, duplicate or refurbished tooling, transition inventory, supplier deposits, and last-time buys. A practical initial reserve is \$100,000 to \$300,000 until the critical-part bridge and inventory validation are complete. This is a planning recommendation, not a quantified debt-like item.

LENDER ADVISORY

Lender Conditions and Ongoing Monitoring

Recommended pre-closing deliverables

8. Reconciled trailing-twelve-month spend cube tied to the general ledger and separated by site, supplier, item, commodity, currency, incoterm, HTS code, and country of origin.
9. Critical-part-to-revenue bridge for the top 25 components, including on-hand coverage, open orders, alternates, qualification duration, tooling, and customer restrictions.
10. Inventory observation and aging analysis supporting the recorded reserve, with specific disposition of items older than twelve months.
11. Updated tariff exposure using current entry data and verified classifications, with management's customer pass-through and sourcing response.
12. PCBA transition plan showing selected bidders, landed-cost comparison, sample status, test fixtures, redesign ownership, and qualification budget.
13. Tooling register and ownership evidence for tools supporting critical and customer-qualified parts.

Suggested post-closing reporting

Frequency	Measure	Trigger for lender discussion
Monthly	Liquidity, inventory, past-due A1 components, premium freight, realized sourcing savings	Liquidity below plan; any A1 stockout; savings miss >20%.
Quarterly	Single-source spend, contract coverage, critical alternate coverage, tariff cost, supplier OTIF and quality	Single-source reduction off plan; tariff cost >10% above forecast; material supplier failure.
Semiannual	Inventory reserve, tooling status, top supplier financial health, customer qualification portfolio	Reserve increase >\$100K; critical tool failure; delayed customer approval affecting revenue.

Conclusion

Target.Co's operational risk profile is elevated but actionable. The lender's core concern should be the gap between apparent supplier diversification and actual component substitutability. Approval can be supported if liquidity is adequate, the buyer accepts the 100-day plan, critical-part and inventory validations are completed, and the lender does not underwrite unimplemented savings as existing EBITDA.

APPENDIX

Appendix Assumptions and Source Register

Assumption	Report treatment
Revenue and EBITDA	\$18.0M revenue and \$3.5M EBITDA supplied for the transaction scenario.
Spend denominator	\$5.4M management underwriting base; source schedules retained for source-specific percentages.
Single source	76% of component spend, equal to \$4.104M on the underwriting base.
Customer restrictions	15% of total spend, equal to \$810K, not immediately moveable.
Inventory	\$2.1M modeled balance, 2.6x turns, and aging profile are illustrative pending inventory records.
Contribution margin	45% used only for the revenue-interruption sensitivity; requires validation.
Spend exposure	Probability-weighted annual exposure with overlap adjustment; not a GAAP reserve or guaranteed loss.
Improvement case	Gross opportunities discounted for overlap, qualification, timing, and execution; stated as cost reduction and not included in base EBITDA.

Source register

Source	Use in report
Copy of Purch AN US CZ 2018 2024 Consolidation	FY18/19 and FY23/24 category, supplier, and component spend.
Copy of Tariff Simulation 5.12.25	Geographic mapping, origin data quality, and tariff scenario.
Copy of TOP 20 saving opportunities	Addressable spend and gross category savings targets.
Atlas Procurement PCBA Tender Results	BOM risk, PCBA costs, tender savings, redesign opportunity, and CEM sourcing evidence.
Management assumptions	Business profile, revenue, EBITDA, sourcing, qualification, inventory operating context, and procurement maturity.

Important limitations

This sample is a limited-scope operational diligence report. APS did not audit financial statements, observe inventory, confirm supplier balances, inspect tooling, test product designs, obtain customer approvals, verify regulatory compliance, or provide legal, tax, customs, engineering, accounting, valuation, or insurance opinions. Tariff exposure is based on a dated management model and must be refreshed. Modeled amounts are decision-support estimates and should not be treated as forecasts, reserves, or guarantees.

Prepared by APS Advisory for the identified transaction parties. Distribution should be limited to the buyer, lender, and their professional advisers subject to the engagement terms.