

Meridian QoE Advisory

Quality of Earnings Report

Ridgeline Managed IT, LLC | Proposed SBA 7(a) Change-of-Ownership Financing

Target	Ridgeline Managed IT, LLC: managed IT services provider (MSP) with cybersecurity and cloud practices
Prepared for	Mock Community Bank (SBA Lending Department)
Engagement scope	Full-scope lender QoE
Periods reviewed	FY2023, FY2024, FY2025 and trailing twelve months (TTM) ended August 31, 2026
Transaction	Asset purchase by an individual buyer; two selling owners exit after a 9-month transition
Report date	October 5, 2026

\$9.94M	\$1,423K	\$1,185K	66.5%	1.46x
TTM revenue	TTM Adjusted EBITDA	Pro forma Adj. EBITDA	Recurring revenue	Est. DSCR (illustrative)

1. Executive Summary

We performed quality of earnings procedures on the financial information of Ridgeline Managed IT, LLC (the "Company") at the request of the lender. Reported TTM EBITDA was \$1,360K. After diligence and normalization adjustments, we calculated Adjusted EBITDA of \$1,423K (14.3% margin). Giving effect to two known run-rate changes, Pro Forma Adjusted EBITDA is \$1,185K. The \$5,400K purchase price implies 3.8x Adjusted EBITDA and 4.6x Pro Forma Adjusted EBITDA.

Earnings are supported by a recurring managed-services base, monthly contract billing and a proof of cash within 0.3%. Three accounting practices depart from GAAP and are corrected in our adjustments (Section 13). Our principal observations relate to contract assignability, a departing top-ten customer and owner-held vendor relationships (Section 15).

2. Proposed Sources and Uses (\$000s)

Sources	Amount	%	Uses	Amount
SBA 7(a) term loan	4,750	81.5%	Purchase price (asset purchase)	5,400
Seller note (24-mo full standby)	500	8.6%	Working capital funding	250
Buyer cash equity	580	9.9%	SBA guaranty fee, closing & transaction costs	180
Total sources	5,830	100.0%	Total uses	5,830

Sources and uses provided by the lender for context only. Financing structure was not within the scope of our procedures.

3. Scope and Procedures

- Reconciled monthly P&L to federal tax returns (FY2023 to FY2025) and to bank statements for all 44 months.
- Performed a proof of cash and tested revenue by line against the PSA billing system, invoices and contracts.
- Analyzed recurring revenue, retention, customer concentration and geography using the Company's contract register.
- Reviewed payroll registers, owner compensation, capitalization and revenue recognition policies, accruals and related-party activity.
- Prepared a summary balance sheet, calculated normalized net working capital and identified debt and debt-like items.
- Interviewed both owners, the controller and the outside CPA. This is not an audit or review, and no opinion is expressed.

4. Company Overview

Ridgeline was founded in 2011 and provides outsourced IT management to small and mid-sized organizations in the Upper Midwest (Minnesota, Wisconsin and Iowa), primarily healthcare clinics, professional services firms, light manufacturers and municipalities. Services are delivered from a single leased office with a 24/7 network operations center (NOC) supported by a third-party overnight partner. The Company had 54 employees and 212 active managed-services clients at August 31, 2026.

Revenue line	Description	Billing
Managed services	Per-user and per-device monthly contracts: help desk, monitoring, patching, backup, security stack	Monthly in advance
Project services	Migrations, network buildouts, cloud deployments, security assessments	Milestone or T&M
Resale	Hardware, licensing and subscriptions passed through at a markup	On delivery

5. Adjusted EBITDA and Earnings Bridge (\$000s)

	FY2023	FY2024	FY2025	TTM Aug-26
Managed services (recurring)	4,380	5,120	6,040	6,610
Project services	1,760	1,980	2,210	2,150
Hardware & software resale	1,520	1,410	1,290	1,180
Total revenue	7,660	8,510	9,540	9,940
Net income	690	801	922	1,050
Interest expense	70	64	58	52
Income taxes (state/entity)	18	21	24	26
Depreciation & amortization	162	188	214	232
Reported EBITDA	940	1,074	1,218	1,360
Reported EBITDA margin	12.3%	12.6%	12.8%	13.7%
A1 Owner compensation normalized to market	92	98	110	115
A2 Owner personal expenses	47	44	39	36
A3 Capitalized internal labor reclassified to expense	(64)	(72)	(85)	(91)
A4 Non-recurring cyber incident remediation	-	-	68	68
A5 Prepaid multi-month contracts: revenue deferral	(31)	(38)	(54)	(47)
A6 Unrecorded accrued PTO	(10)	(12)	(15)	(18)
Total diligence adjustments	34	20	63	63
Adjusted EBITDA	974	1,094	1,281	1,423
Adjusted EBITDA margin	12.7%	12.9%	13.4%	14.3%
PF1 Departing customer (notice received Jul-2026)				(142)
PF2 Run-rate cost of security engineer hired Jun-2026				(96)
Pro Forma Adjusted EBITDA (TTM)				1,185

Amounts in thousands of US dollars. Parentheses indicate reductions to EBITDA. Pro forma adjustments apply to the TTM period only and reflect known changes after period end or not yet in the run rate.

6. Notes to Adjustments

A1. The two owners (CEO and CTO) received combined W-2 compensation of \$525K to \$545K plus distributions. Replacement cost for a general manager and a technical director is estimated at \$410K to \$430K fully loaded, based on regional salary surveys.

A2. Vehicle leases, club memberships and family travel recorded in the general ledger, confirmed with the owners and supported by statements.

A3. The Company capitalized internal technician time spent building its client portal and automation scripts. Because this work is ongoing and recurring in nature, we treated it as an operating expense. See also Sections 12 and 13.

A4. Incident response, forensic and legal costs following a Nov-2025 credential-compromise event affecting the Company's own systems. No client data loss was reported. Insurance recoveries of \$40K were netted. Non-recurring.

A5. Certain clients prepay 6 or 12 months of managed services, which the Company recognized as revenue when invoiced. The adjustment defers revenue to the months of service.

A6. The Company does not accrue earned but unused PTO. The adjustment records the annual change in the liability from payroll records.

PF1. A light-manufacturing client (Customer D, 4.1% of TTM revenue) gave notice in Jul-2026 that it will move IT in-house in Dec-2026. The adjustment removes its TTM contribution margin.

PF2. A senior security engineer was hired in Jun-2026. The adjustment annualizes the cost not yet reflected in the TTM period.

7. Revenue Quality and Analysis

Revenue line (\$000s)	FY2023	FY2024	FY2025	TTM Aug-26	TTM % of total
Managed services (recurring)	4,380	5,120	6,040	6,610	66.5%
Project services	1,760	1,980	2,210	2,150	21.6%
Hardware & software resale	1,520	1,410	1,290	1,180	11.9%
Total revenue	7,660	8,510	9,540	9,940	100.0%
Year-over-year growth	-	11.1%	12.1%	n/m	

Recurring revenue metric	FY2024	FY2025	TTM Aug-26
Ending monthly recurring revenue (MRR, \$000s)	448	524	571
Active managed-services clients	188	201	212
Gross revenue retention	91.8%	92.4%	93.1%
Net revenue retention (incl. upsell and price increases)	102.1%	103.2%	104.6%
Clients on contract with auto-renewal	74%	78%	81%

TTM growth is not meaningful (n/m) because the TTM period overlaps FY2025. A 6% price increase on managed services took effect Jan-2026 with minimal client attrition. TTM revenue by client location: Minnesota 61%, Wisconsin 24%, Iowa 15%.

8. Customer Concentration (TTM)

Customer	Industry / description	TTM revenue (\$000s)	% of total	Cumulative %
A	Regional healthcare network	974	9.8%	9.8%
B	County government	616	6.2%	16.0%
C	Multi-office law firm	497	5.0%	21.0%
D	Light manufacturer (departing)	408	4.1%	25.1%
E	Engineering firm	338	3.4%	28.5%
F	Dental group (11 locations)	308	3.1%	31.6%
G	Credit union	278	2.8%	34.4%
H	School district	258	2.6%	37.0%
I	Property management company	219	2.2%	39.2%
J	Accounting firm	189	1.9%	41.1%
Top 10 total		4,085	41.1%	

No single customer exceeds 10% of revenue. Customers A and B have contracts requiring consent to assignment (Section 15).

9. Gross Margin and Headcount

Gross margin by line (\$000s, TTM)	Revenue	Direct costs	Gross profit	Margin
Managed services (recurring)	6,610	(3,173)	3,437	52.0%
Project services	2,150	(1,333)	817	38.0%
Hardware & software resale	1,180	(1,015)	165	14.0%
Total	9,940	(5,521)	4,419	44.5%

Department	Headcount	Avg. loaded cost (\$000s)
Service desk (tier 1 and 2)	18	71
Field and systems engineering	12	96
Projects and cloud engineering	9	112
Cybersecurity	4	138
Sales and account management	4	104
Finance and administration	5	68
Owners / leadership	2	n/a
Total	54	

Voluntary technician turnover was 17% in the TTM period, in line with the Company's history. Five employees hold key vendor certifications.

10. Proof of Cash (TTM, \$000s)

Item	Amount
Total revenue per P&L	9,940
Add: sales tax collected on resale	96
Less: increase in accounts receivable	(142)
Add: increase in deferred revenue	61
Expected customer deposits	9,955
Actual operating deposits per bank statements	9,982
Unexplained variance	27 (0.3%)

Variance is within our 1% tolerance. Owner contributions, loan proceeds and transfers between Company accounts were excluded.

11. Net Working Capital Trend (monthly average, \$000s)

Component	FY2023	FY2024	FY2025	TTM Aug-26
Accounts receivable	905	1,010	1,120	1,184
Unbilled project revenue	62	74	88	96
Prepaid software licenses	55	66	80	88
Accounts payable	(330)	(362)	(398)	(412)
Accrued payroll & benefits	(186)	(205)	(224)	(236)
Deferred revenue (prepaid contracts)	(198)	(240)	(296)	(318)
Normalized net working capital	308	343	370	402
NWC as % of revenue	4.0%	4.0%	3.9%	4.0%

NWC has held steady at about 4% of revenue. TTM days sales outstanding averaged 43 days. A peg near the TTM average of \$402K is suggested for the purchase agreement.

12. Summary Balance Sheet and Debt-Like Items (\$000s)

Balance sheet at August 31, 2026	Amount
Cash	610
Accounts receivable	1,262
Unbilled project revenue	112
Prepaid expenses	94
Property & equipment, net	486
Capitalized software (internal labor), net	214
Total assets	2,778
Accounts payable	388
Accrued payroll & benefits (incl. FY2026 bonuses)	251
Deferred revenue	318
Customer deposits on open projects	74
Revolving line of credit	350
Equipment loan (NOC hardware)	118
Total liabilities	1,499
Members' equity	1,279
Total liabilities and equity	2,778

Debt and debt-like item	Aug-31-26	Treatment
Revolving line of credit	350	Repaid at closing
Equipment loan (NOC hardware)	118	Repaid at closing
Accrued PTO (not recorded on balance sheet)	142	Debt-like; negotiate
Unpaid FY2026 bonuses (in accrued payroll)	85	Debt-like; seller to fund
Customer deposits on open projects	74	Assumed with work
Deferred revenue	318	Included in NWC peg
Office lease (4 years remaining, not recorded under ASC 842)	-	Assignment required

Maintenance capital expenditures (laptops, NOC hardware, network refresh) averaged \$75K per year. Capitalized internal labor (A3) is excluded from this amount and from the balance sheet presentation above.

13. Accounting Policies and Departures from GAAP

- **Basis of accounting.** Accrual basis, internally prepared monthly financial statements. Tax returns are prepared on the accrual basis by the outside CPA.
- **Revenue recognition.** Managed services are recognized monthly. Project services are recognized at milestones or as hours are billed. Resale is recorded gross on delivery. A net presentation would reduce revenue but would not change EBITDA.
- **Departure 1: prepaid contracts.** Multi-month prepayments were recognized when invoiced rather than over the service period (corrected in A5).
- **Departure 2: capitalized labor.** Internal technician time was capitalized as software. We consider it a recurring operating cost (corrected in A3).
- **Departure 3: compensated absences.** Earned but unused PTO is not accrued (corrected in A6 and shown as debt-like in Section 12).
- **Capitalization threshold.** \$2,500. Leases are not recorded under ASC 842. No inventory is held.

14. Illustrative Debt Service Coverage (\$000s)

Item	Annual
Pro Forma Adjusted EBITDA (TTM)	1,185
Less: maintenance capital expenditures	(75)
Cash available for debt service	1,110
SBA 7(a) loan: \$4,750K, 10 years, 10.25% (illustrative)	761
Seller note (on full standby in years 1 and 2)	-
Debt service coverage ratio	1.46x

Illustrative only. Rate, term and coverage calculations are the lender's responsibility. Buyer personal living expenses and taxes are not considered.

15. Key Findings and Risk Assessment

- **Earnings quality: high.** 66% recurring revenue, monthly contract billing, retention above 93% and a proof of cash within 0.3%.
- **Contract assignability.** Customers A and B (16.0% of revenue combined) require consent to assignment. Obtaining consents before closing is advisable.
- **Key-person and vendor risk.** The CTO owner holds the primary distributor and cloud-partner relationships. These should transfer during the 9-month transition.
- **Departing customer.** Customer D's exit is reflected in Pro Forma Adjusted EBITDA (PF1). No other termination notices were identified.
- **Accounting practices.** Three departures from GAAP (Section 13) overstated TTM EBITDA by \$156K before our adjustments.
- **Cyber exposure.** Following the Nov-2025 incident, the Company added MFA everywhere and increased cyber coverage to \$3M. Coverage should continue post-closing.

16. Limitations

This is a fictional sample report published by FindSBAQoE.com to illustrate the format of a lender-engaged Quality of Earnings report. Meridian QoE Advisory, Ridgeline Managed IT, LLC, Mock Community Bank, and all figures and findings are fictitious. It does not describe any real company or engagement and must not be relied upon for any credit, investment or transaction decision.