

Johnson Specialty Products Annual Financial Review September 15, 2025

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I. Report Outline

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II. Profit & Loss Data

Category	2022		2023		2024		2025 (thru 8 mos)		2025 (Annualized)	
	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%
Gross Revenue	\$ 3,990,570	-----	\$ 4,639,814	-----	\$ 6,841,642	-----	\$ 2,765,242	-----	\$ 4,147,863	-----
Cost of Goods Sold	2,655,425	67%	3,271,827	71%	5,085,321	74%	1,741,255	63%	2,611,883	63%
Gross Margin	\$ 1,335,145	33%	\$ 1,367,987	29%	\$ 1,756,321	26%	\$ 1,023,987	37%	\$ 1,535,981	37%
Expenses										
Wages	\$ 324,876	8%	492,896	11%	845,231	12%	356,342	13%	534,513	13%
Rent Expense	120,000	3%	122,000	3%	220,666	3%	110,000	4%	165,000	4%
Interest Expense	62,847	2%	96,352	2%	204,234	3%	198,345	7%	297,518	7%
Advertising	65,000	2%	123,000	3%	225,000	3%	75,000	3%	112,500	3%
Depreciation/Amortization Exp.	271,804	7%	283,675	6%	297,675	4%	203,456	7%	305,184	7%
Other	531,460	13%	616,634	13%	862,176	13%	152,639	6%	228,959	6%
Total Expenses	\$ 1,375,987	34%	\$ 1,734,557	37%	\$ 2,654,982	39%	\$ 1,095,782	40%	\$ 1,643,673	40%
Net Income	\$ (40,842)	-1%	\$ (366,570)	-8%	\$ (898,661)	-13%	\$ (71,795)	-3%	\$ (107,693)	-3%
Add Back: Non-cash Expenses										
Depreciation/Amortization Exp.	271,804	7%	283,675	6%	297,675	4%	203,456	7%	305,184	7%
Cash Flow	\$ 230,962	6%	\$ (82,895)	-2%	\$ (600,986)	-9%	\$ 131,661	5%	\$ 197,492	5%

Category	Year-to-Year Changes							2025 (Annualized)	
	2022		2023		2024				
	Amt	% Inc/Dec	Amt	% Inc/Dec	Amt	% Inc/Dec			
Gross Revenue	\$	3,990,570	16%	\$ 4,639,814	47%	\$	6,841,642	-39%	\$ 4,147,863
Gross Margin	\$	1,335,145	2%	\$ 1,367,987	28%	\$	1,756,321	-13%	\$ 1,535,981
Net Income	\$	(40,842)	----	\$ (366,570)	----	\$	(898,661)	----	\$ (107,693)
Cash Flow	\$	230,962	----	\$ (82,895)	----	\$	(600,986)	----	\$ 197,492

III. Balance Sheet Data

Balance Sheet Category	2022 Amt	2023 Amt	2024 Amt	2025 (8-31-25) Amt
Current Assets (Cash + Acc Rec + Other)	\$ 767,000	\$ 654,987	\$ 625,765	\$ 778,321
Fixed Assets (Plant + Land + Equipment + Other)	4,256,897	4,276,897	4,284,201	4,297,675
Total Assets	\$ 5,023,897	\$ 4,931,884	\$ 4,909,966	\$ 5,075,996
Current Liabilities (Accounts Payable + Other)	\$ 324,876	\$ 492,896	\$ 635,654	\$ 745,256
Long-Term Liabilities (Long Term Debts + Other)	1,865,201	1,858,564	1,897,564	1,945,786
Total Liabilities	\$ 2,190,077	\$ 2,351,460	\$ 2,533,218	\$ 2,691,042
Equity (Original Investment Adjusted Over Time)	\$ 2,833,820	\$ 2,580,424	\$ 2,376,748	\$ 2,384,954
Liquidity Ratio (Current Assets/Current Liabilities)	2.36	1.33	0.98	1.04
Debt-to-Equity Ratio (Total Debt/Total Equity)	0.77	0.91	1.07	1.13
Debt Ratio (Total Debt/Total Assets)	0.44	0.48	0.52	0.53

IV. Bank Statement Data

Category	Mar-25		Apr-25		May-25		Jun-25		Jul-25		Aug-25		Averages
	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	
Opening Balance	\$ 8,765	-----	\$ 243,876	-----	\$ 174,897	-----	\$ 165,987	-----	\$ 154,876	-----	\$ 155,765	-----	\$ 150,694
Deposits - Revenue	\$ 325,403	52%	\$ 342,564	91%	\$ 365,876	95%	\$ 342,897	96%	\$ 354,786	97%	\$ 349,765	96%	\$ 346,882
Deposits - Transfers/Other	75,987	12%	32,567	9%	19,563	5%	12,876	4%	11,342	3%	14,765	4%	27,850
Deposits - Loan Proceeds	225,453	36%	-	0%	-	0%	-	0%	-	0%	-	0%	37,576
Total Deposits	\$ 626,843		\$ 375,131		\$ 385,439		\$ 355,773		\$ 366,128		\$ 364,530		\$ 412,307
Ending Balance	\$ 243,876		\$ 174,897		\$ 165,987		\$ 154,876		\$ 155,765		\$ 152,987		\$ 174,731
Negative Balance Days	2		0		0		0		0		0		0.33
NSFs	2		0		0		0		0		0		0.33

V. Analysis

A. Profit & Loss Statement

1. **Gross Revenue Varies Significantly** – Gross Revenue increased 16% from 2022 to 2023 and 47% from 2023 to 2024. It then fell dramatically by 39% from 2024 to 2025. This would be a great concern if the variations were not based on changes in business strategy. Your decision to pursue a marketing-based discounting strategy in 2023 & 2024 were the drivers of the increase and the return to more traditional pricing in 2025 explains the decrease.
2. **Gross Margins** decreased steadily from 33% in 2022 to 26% in 2024 and bounced back to a strong 37% in 2025. In terms of dollars, the increased Gross Revenue of \$2.85M from 2022 to 2024 only resulted in a corresponding \$421K increase in Gross Margin, which was not enough to offset expense increases caused by the new strategy.
3. **Bottom Line Results - Net Income Margins** decreased from -1% to -8% and -13% during the heavy discounting period and bounced back to -3% in 2025 upon the return to traditional pricing. **Cash Flow Margins** decreased annually from 6% in 2022 to -2% in 2023 and -9% in 2024---it then then rebounded to 7% in 2025. These negative cash flow margins must have contributed to your decision to take on debt to fund your increased purchases, marketing, and wages.
4. **Expense Management -**
 - a. **Wages** - It appears that the increase in revenue caused a related increase in wages to the point that wages almost tripled from 2022 to 2024. This expense was brought back in line in 2025.
 - b. **Rent Expense** – Your increased volume also contributed to a need for additional space, which increased rent expense---this was also reversed in 2025.
 - c. **Advertising** - The advertising budget almost quadrupled from 2022 to 2024 in support of the discounting strategy. This expense was also reduced for 2025.
 - d. **Interest Expense** - Increased from \$63K in 2022 to \$298K in 2025. This expense is still moving upward at an alarming rate and is clearly related to your recent working capital loans.

B. Balance Sheet Analysis

1. **Liquidity ratio** - This ratio divides your Current Assets by your Current Liabilities and shows how many dollars in liquid assets are available to pay your upcoming debts. Your 2022 ratio showed that you have \$2.36 of current assets for every dollar of current liabilities, which is a strong ratio. This was reduced to just 1.04 in 2025 based on the amount of debt that you took on in the previous three years.
2. **Debt Ratios** – Both your Debt-to Equity ratio and your overall Debt Ratio showed similar increases as you've taken on significant debt over the last few years.

C. Bank Account Analysis

1. **March 2025** – Given your dangerously low opening balance in March of 2025, you took out your third large working capital loan to bolster the balance. The account went negative for 2 days before the loan proceeds were deposited in March.
2. **Remainder of the Period** – Based on the positive impact of eliminating your price discounting strategy, the business held its own from a cash standpoint for the remainder of the period settling in at about \$150K in ending balances. This represents about 4% of annual revenue and should be sufficient moving forward.

II. Recommendations

- A. **Business Strategy** - It appears that your return to a traditional pricing strategy after experimenting was the right move. This is not to say that you shouldn't try new approaches in the future, but it appears that you're currently on the right course.
- B. **Debt Management**- You've done an excellent job right-sizing your expenses in 2025 except for interest expense. Here are some strategies that you can consider:
 1. **A Consolidation Loan** - You may be able to pay off your high-cost working capital debt with a multi-year term loan at a reasonable rate. Your challenge here will be your Balance Sheet and the

appearance of stacking, which means that you stacked one high-cost loan on top of another. Lenders may worry that you might stack another loan on top of what they provide. Your improved 2025 numbers, recent borrowing, and change in strategy must be framed carefully for a lender to have an interest.

2. **Holding the Course** - Forecast your cash receipts and expenditures carefully over the next 18 months. If you can meet your other obligations and service the debt that you currently have, you may choose to just grit your teeth and get through it. In this scenario, I can suggest ways that you can speed up the collections of your receivables and slow down the payments of your payables (without creating issues with your customers or vendors).
3. **A Commercial Mortgage** - Your building is owned free and clear and could provide excellent collateral for a long-term loan to pay off your expensive short-term debt. The disadvantage of this approach is that the extended term of the mortgage will cause you to “live with” this problem for a longer period. If you pursue this option, make sure that the prepayment terms on the mortgage are not prohibitive.
4. **Injecting Capital into the Business**- If funds are available, you can either inject funds as equity or as a loan.
5. **A Debt Restructure** - This strategy involves negotiating longer pay back terms for your short-term debt with your existing lenders.

There is a lot more to know about each of the recommendations presented above. Please feel free to contact me with questions or if I can be of further service.

Thank you.

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