

Executive Operational & Financial Review

Halbrook Industrial Supply · FY24–FY26

Growth remained positive, but margin compression, a shift in revenue mix and a receivables control failure have weakened the quality of that growth.

Period	Revenue	Invoice lines	Accounts
36 months to June 2026	\$38.40M	278,169	142

Halbrook Industrial Supply is a fictional company and every figure in this document is computed from synthetic data generated for demonstration. It is not client work and describes no real business. Prepared by Material Signal as an example of the analytical deliverable produced by a diagnostic engagement.

1. Executive summary

Revenue grew 9.1% over the window while gross profit grew 2.9%. The gap is a blended gross margin that fell 1.594 points, from 28.03% to 26.43%. At the opening margin the closing book would have earned \$612K more gross profit, against \$1.84M of closing EBITDA.

Roughly half that decline comes from the shift in revenue mix between the two lines of business; the other half comes from changes in the lines' own margins. The within-line half calls for pricing and cost-recovery analysis, while the mix half calls for a different operating response. At the same time the receivables subledger overstates what customers owe by \$1.43M, and 758 receipts worth \$1.31M are sitting unapplied and can be posted now. Both matter to a company in breach of two covenants.

Finding	Severity	Amount	Basis
Revenue grew; gross profit did not follow	Critical	\$612K	gross-profit counterfactual
Revenue mix explains roughly half the margin decline	Critical	\$303K	gross-profit counterfactual
The within-line margin decline is entirely in Distribution	Material	\$389K	gross-profit equivalent
2 accounts explain half the margin decline	Material	not sized	—
Growth is masking contraction in the largest accounts	Material	\$1.17M	revenue
Service revenue fell on realised rate, not on hours	Material	\$1.07M	revenue
Discount off list rose in every customer segment	Material	\$133K	revenue
The year swings 1.66x from trough to peak	Watch	not sized	—

The amounts are stated in different units and must not be ranked against one another or added. A revenue movement and a gross-profit counterfactual are different economic quantities. The exact, additive view of the margin decline is the decomposition in section 3.

2. Financial position and control

The commercial analysis that follows sits inside a tight financial position. EBITDA fell from \$2.43M to \$1.84M, operating cash flow was -\$360K, and funded debt rose from \$4.38M to \$6.69M. At the period end Halbrook was in breach of both the leverage and the interest coverage covenants.

Measure	FY26	Covenant	Status
Total debt / EBITDA	3.63x	max 3.50x	In breach
EBIT / interest expense	2.00x	min 2.50x	In breach
Revolver availability	\$1.11M	—	Undrawn commitment
Days sales outstanding	54	—	From 42 at the opening year

The receivables control failure. The AR subledger closed at \$7.08M against a reconciled receivable of \$5.66M — an overstatement of \$1.43M, or 20.1% of the subledger. The cause is not missing cash. The lockbox sweeps to the revolver and the general ledger carries a daily aggregate entry, so the balance sheet is right; what fell behind is invoice-level application in the subledger.

The practical consequence is that the aging report used to chase customers is wrong. 758 receipts worth \$1.31M can be applied to specific invoices immediately. This is a reporting and collections failure rather than a funding problem: the lockbox sweeps to the revolver on the day cash arrives, so the company holds the money and the days-sales-outstanding figure above is unaffected. What it does mean is that collections effort has been directed at invoices customers had already paid.

Receivables figures are the output of a separate reconciliation of the ERP invoice register against the bank lockbox remittance detail, scored at 99.34% link precision and 97.58% recall against a known answer key. Financial statement figures are the company's, stated in \$000.

3. Margin and commercial drivers

The business grew in every year of the window and earned less on each additional dollar of it. Gross profit growth fell from 2.1% to 0.7% while revenue growth held near 4.1%.

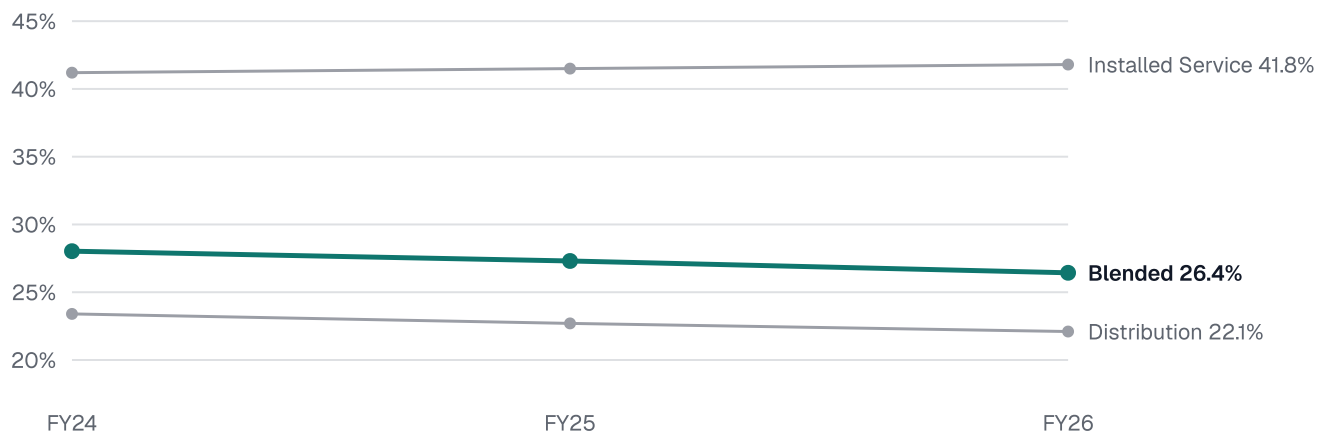
Fiscal year	Revenue	Gross profit	Gross margin	Invoices	Accounts
FY24	\$35.20M	\$9.87M	28.03%	20,100	142
FY25	\$36.90M	\$10.08M	27.31%	21,070	142
FY26	\$38.40M	\$10.15M	26.43%	22,130	142

The 1.594-point decline decomposes additively into 0.806 points from the two lines' own margins and 0.788 points from the change in revenue mix between them. The two effects sum to the movement with no residual, so no part of it is unexplained.

Within the rate effect the direction is not uniform: Distribution gave up 1.30 points while Installed Service gained 0.60 points. Installed Service earns 41.8% against Distribution's 22.1%, so moving revenue from the first to the second costs margin even when neither line's own rate changes at all.

Exhibit 1. One line earns nearly double the other's margin

Gross margin by line of business and for the company. The blended figure is the one monthly reporting carried.



Source: margin_trend.json, from the invoice ledger

Exhibit 2. Where the revenue movement came from

Price and volume effects by unit of measure. Decomposed within each unit, because an average price across hours, boxes, feet, cases and units is not a price. The effects are in currency and therefore sum across units.

Unit of measure	Price effect	Volume effect	Total change
HR	-\$1.07M	\$365K	-\$704K
CASE	\$189K	\$107K	\$297K
FT	\$291K	\$166K	\$457K
BOX	\$613K	\$412K	\$1.02M
EA	\$1.03M	\$1.05M	\$2.13M
Total	\$1.05M	\$2.10M	\$3.20M

Source: price_volume_mix.json, from the invoice ledger

Attribution by account is exact rather than a ranking of how unusual an account looks. 2 of 142 accounts explain half the margin movement.

Exhibit 3. The largest contributors to the margin movement

Each account's own margin-rate change and its change in share of revenue, summing to its contribution. Ranked by contribution, not by size.

Account	FY24 revenue	FY26 revenue	Share of movement
Meridian Mechanical Contractors C0001	\$3.29M	\$2.99M	34.8%
Cedar Valley Foods C0002	\$2.23M	\$2.10M	20.5%
Ironline Manufacturing C0004	\$1.49M	\$1.43M	13.4%
Tri-State Utilities Authority C0003	\$1.68M	\$1.83M	7.4%
Union Industries C0081	\$389K	\$326K	6.6%
Northgate Processing C0111	\$224K	\$191K	4.3%
Prairie Ridge Facilities Group C0005	\$1.22M	\$1.36M	4.2%
Municipal Water District 7 C0009	\$1.00M	\$1.08M	4.0%

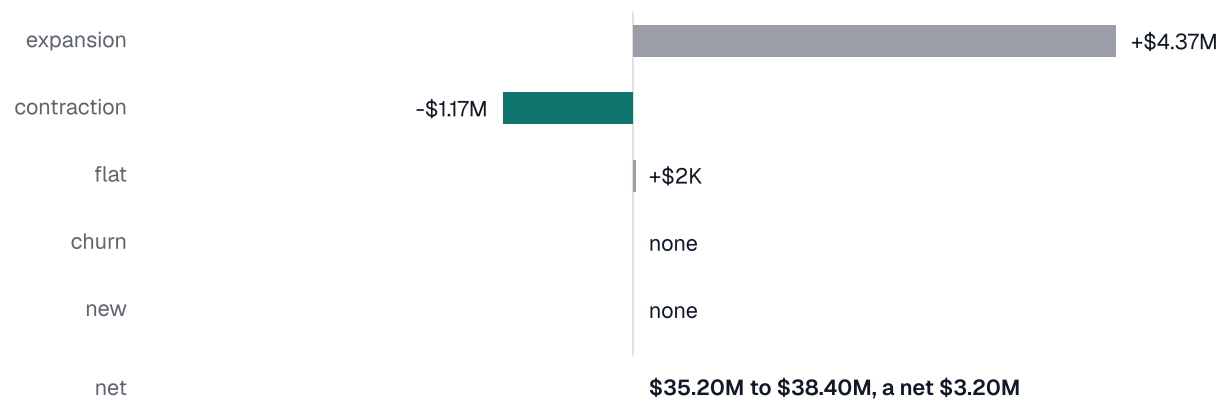
Source: contribution.json, from the invoice ledger

4. Customer and revenue-base risks

A single growth rate does not show what happened underneath it. Net revenue retention over the window is 109.1%, while gross revenue retention — which excludes expansion — is 96.7%. 99 accounts grew and 34 shrank. Whether that rate is good or poor for a distributor of this kind is not something these invoice lines can establish; what they do establish is where the contraction sits.

Exhibit 4. What moved revenue between the opening and closing years

The four effects sum to the movement with no residual. Contraction is the part a growth rate does not show. Churn and new business are structurally zero: the account roster is fixed across the window, so nothing is acquired and nothing is lost.



Source: retention_bridge.json, from the invoice ledger

Realised discount against the price book widened in every customer segment. No segment tightened. Individually each step is inside the noise of ordinary negotiation; in one direction across every segment, it is a trend.

Exhibit 5. Realised discount off list, by segment

Measured against list value rather than against revenue, because the commercial question is what was given away against the company's own price book.

Segment	FY24	FY25	FY26	Change
Contractor	16.65%	16.73%	17.17%	+0.52 pts
Facilities & Property Management	11.69%	11.78%	11.95%	+0.26 pts
Manufacturer	13.32%	13.52%	13.53%	+0.21 pts
Municipality & Utility	9.29%	9.35%	9.53%	+0.23 pts

Source: discounting.json, from the invoice ledger

Transaction-level exception screening over the same ledger promoted 20 issues to management review. That analysis, its detection rules and its accuracy against a known answer key are documented separately; this report carries its conclusions rather than repeating its method.

One risk this data does not support a view on is concentration. The largest accounts are losing share rather than gaining it, so a dependence argument is not available here.

5. Recommended actions

Ordered by how quickly the action can be taken and how far its result is within management’s control, rather than by the size of the number attached to it.

Action	Arising from
Apply the 758 directly applicable receipts and re-issue the aging report before the next collections cycle.	Receivables reconciliation
Treat margin rather than revenue as the reported headline for the next two quarters, and hold the next three findings against it.	Revenue grew; gross profit did not follow
Establish whether the service share is falling by choice - capacity, hiring, quoting - or by default. That is a question about the business, and the invoice lines cannot answer it.	Revenue mix explains roughly half the margin decline
Review Distribution cost recovery and discounting first; Installed Service is improving and does not need the same attention.	The within-line margin decline is entirely in Distribution
Put the named accounts on the next commercial review with their own margin history, rather than issuing a general pricing instruction.	2 accounts explain half the margin decline
Review the contracting accounts for cause - service levels, competitive loss, or reduced activity - before the offsetting expansion stops covering them.	Growth is masking contraction in the largest accounts
Compare realised rate per hour against the published rate card by branch. The invoice lines show the realised rate; they do not contain the rate card, so whether this is discounting, scope creep, or a deliberate change cannot be determined from this data.	Service revenue fell on realised rate, not on hours
Confirm the delegation limits in force and whether approvals are being recorded. The ledger shows the discount taken; it does not show who authorised it.	Discount off list rose in every customer segment
Report monthly performance against the same month a year earlier, or against the seasonally adjusted series, and not against the month before.	The year swings 1.66x from trough to peak

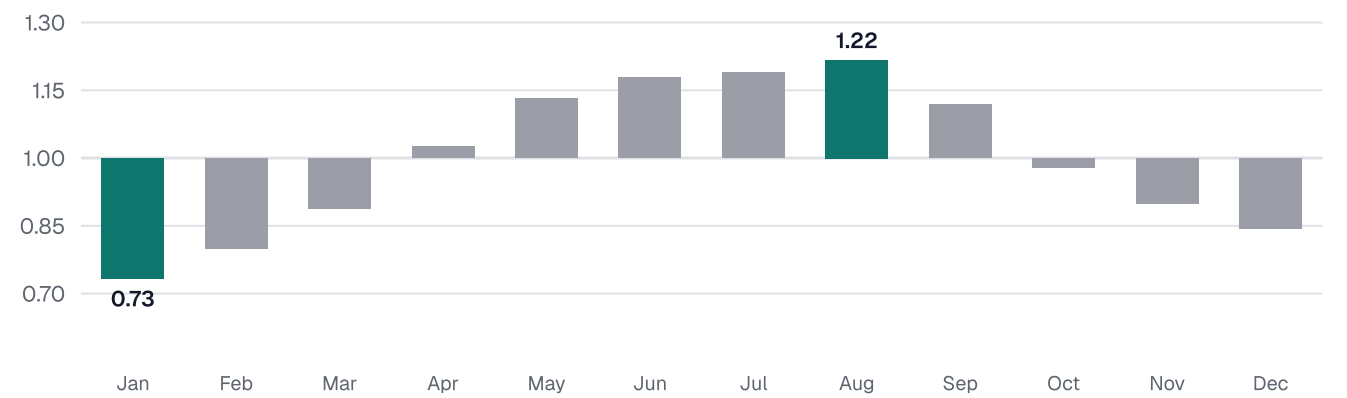
On the mix. Holding each line's own margin exactly where it closed and returning the revenue split to where it opened — Installed Service at 26.0% rather than 22.0% — would improve the blended margin by 0.788 points, worth \$303K a year at current revenue. That figure is computed independently of the margin bridge in section 3 and agrees with its mix term. It is a scenario rather than a recoverable opportunity: the invoice lines establish the arithmetic, not whether the share can be returned.

6. How to read monthly reporting on this business

August runs at 1.22x the trend and January at 0.73x — a swing of 1.66x. Raw month-on-month comparisons are materially affected by that and should not be read without a seasonal or year-over-year reference.

Exhibit 6. Seasonal factor by calendar month

Each month's level against a centred moving average, so the growth in the series is not read as season. Each factor rests on 2 observations.



Source: seasonal_index.json, from the invoice ledger

7. Methodology, assumptions and provenance

Data. 278,169 invoice lines across 36 months and 142 accounts, covering FY24 to FY26. Revenue is stated net of credit notes throughout, so each total ties to the same closing revenue of \$38.40M. Financial statement figures in section 2 are the company's own, in \$000; receivables figures are the output of the reconciliation named below.

Decompositions tie. The margin bridge, the retention bridge and the price/volume/mix split are each additive: their effects sum to the movement being explained, and each ships with a residual column so that can be checked rather than taken on trust. The build refuses to publish a run where any residual is non-zero.

Amounts are not comparable across findings. A gross-profit counterfactual, a gross-profit equivalent and a revenue movement are different quantities. Each sized finding states its basis, and they are neither ranked against one another nor totalled.

Price, volume and mix are decomposed within a unit of measure. The book bills in five units, and an average price taken across them would add hours to boxes. The effects are denominated in currency, so they still sum across units.

Seasonality is measured against a centred moving average, not against the period mean. On a growing business the period mean puts every late-year month above it, which reads growth as season and then removes it from the series meant to show it. A centred window costs six months at each end, so each monthly factor rests on 2 observations — enough to establish a shape, not enough to be precise about a single month.

What this data cannot support. Cohort and logo-retention analysis are absent because the account roster is fixed: 142 accounts transact throughout the window, none is acquired and none is lost. A logo retention figure would be 100% by construction, so it is reported as unmeasurable rather than as a result. Revenue retention is measurable and is in section 4.

What is observed and what is inferred. The ledger carries price, cost and quantity. It does not carry a rate card, a vendor agreement, or a schedule of delegated authority, so where a realised rate or a discount has moved, this report states the movement and puts the cause to management rather than asserting one.

Provenance	Identifier
This report	XR-44835F
Commercial analysis build	EI-4716D1
Receivables reconciliation build	RC-698FA2
Case digest, over both	HB-9EF73D
Source ledger (sales_ledger.csv), SHA-256	b147dd3cd72f900f...

The ledger hash is abbreviated here. The full 64-character value is in `provenance.json` and in the review package’s README, where it is what a reviewer checks against.

Appendix A. Detailed finding register

A1. Revenue grew; gross profit did not follow Critical · \$612K gross-profit counterfactual

Revenue rose 9.1% over two years, from \$35.20M to \$38.40M, while gross profit rose 2.9%. Gross margin fell 1.594 points, from 28.03% to 26.43%. In the most recent year gross profit grew 0.7% against revenue growth of 4.1%.

Implication. At the opening margin the closing book would have earned \$612K more gross profit - a material amount against \$1.84M of closing EBITDA. It is the quality of the growth that changed, not its direction.

A2. Revenue mix explains roughly half the margin decline Critical · \$303K gross-profit counterfactual

The blended margin fell 1.594 points. Decomposed, 0.806 points is the net of the two lines' own margin movements and 0.788 points is the shift in which line the revenue came from. Installed Service, which earns 41.8%, fell from 26.0% of revenue to 22.0%; Distribution, at 22.1%, rose from 74.0% to 78.0%.

Implication. The blended margin fell 1.98x what the two lines' own margins account for. The within-line half calls for pricing and cost-recovery work; the mix half calls for a different operating response, because roughly half the movement is the higher-margin line shrinking as a share of the business. As a scenario: holding both lines' margins exactly where they closed and returning the revenue split to where it opened would be worth \$303K a year. That is arithmetic, not a plan - whether the share can be returned is an operating question.

A3. The within-line margin decline is entirely in Distribution Material · \$389K gross-profit equivalent

Distribution's own margin fell 1.30 points, from 23.4% to 22.1%, while Installed Service's rose 0.60 points to 41.8%. The net of the two is the 0.806 points rate effect.

Implication. One line deteriorated and the other improved, so a single instruction about margin pressure would misdirect most of the response. On \$29.95M of closing Distribution revenue, each point of margin is worth \$300K a year.

A4. 2 accounts explain half the margin decline Material

Ranked by contribution to the movement, 2 of 142 accounts account for half of it, and the ten largest contributors account for 102.0% of it - more than the whole, because accounts elsewhere in the book improved and partly offset them. This is an exact attribution rather than a ranking of how unusual an account looks.

Implication. A margin problem spread thinly across 142 accounts would need a policy response. This one does not: it is concentrated enough to be worked account by account.

A5. Growth is masking contraction in the largest accounts Material · \$1.17M revenue

Net revenue retention over the window is 109.1%, but gross revenue retention – which excludes expansion – is 96.7%. 99 accounts grew and 34 shrank, with contraction of \$1.17M set against expansion of \$4.37M. The three largest contractions sit in 3 of the 4 largest opening accounts, including the largest and second largest: Meridian Mechanical Contractors down \$295K, Cedar Valley Foods down \$129K, Ironline Manufacturing down \$64K.

Implication. A single growth rate does not show this. Whether that retention rate is good or poor for a distributor of this kind is not something these invoice lines can establish – there is no benchmark, contract history or account lifecycle here. What they do establish is that several of the largest accounts are among those contracting, and that expansion elsewhere is currently covering it.

A6. Service revenue fell on realised rate, not on hours Material · \$1.07M revenue

Decomposed within each unit of measure, the \$3.20M revenue movement is \$2.10M of volume and \$1.05M of price. Labour hours are the exception: service revenue fell \$704K even though volume contributed \$365K, because realised revenue per hour fell – a price effect of -\$1.07M.

Implication. The higher-margin line is being sold at a lower realised rate while doing more work. That compounds the mix shift in finding F2 rather than offsetting it.

A7. Discount off list rose in every customer segment Material · \$133K revenue

Realised discount against the price book widened in all 4 segments between 2024 and 2026, led by Contractor at 0.52 points (to 17.17%). No segment tightened.

Implication. Applied to closing list value, the drift is worth about \$133K a year of revenue. Individually each step is within the noise of ordinary negotiation; together, in one direction, across every segment, they are a trend.

A8. The year swings 1.66x from trough to peak Watch

Measured against a centred moving average, August runs at 1.22x the trend and January at 0.73x – a swing of 1.66x. Each factor rests on 2 observations, which is enough to establish the shape and not enough to be precise about any single month.

Implication. Raw month-on-month comparisons are materially affected by seasonality and should not be read without a seasonal or year-over-year reference. The working capital and labour needed to serve the peak have to be carried through the trough.

6 of 8 findings carry an amount. Recommended actions for each are in section 5.