

Attronica AV Division

Strategic Recommendation | Owner's Decision Document

Investment Highlights

- FY2025 AV revenue of \$5.0M — up 77% YoY — the highest in the division's six-year history, on a cost base that required zero incremental headcount.
- Gross margin of 61.1% in FY2025 vs. a six-year average of 45.9%, driven by Attronica's cost-plus pricing model. Structural or episodic: this is the central analytical question.
- AV generates ~34% of Attronica's consolidated gross profit (\$3.1M of \$9.0M) while representing only 8% of total revenue — a disproportionate contributor to the enterprise.
- FY2025 net profit of \$824,627 — first meaningfully positive year after three consecutive EBIT losses (FY2022–FY2024). The division's cost structure is already built for \$6–7M in revenue.
- Asset-light services model: zero inventory, near-zero CapEx, 18 employees. Working capital funded from Attronica's \$3.4M net cash. No external financing required under any base-case scenario.

Key Considerations

- Revenue volatility is the primary risk. The division has moved \$4.0M → \$1.9M → \$5.0M in three years (±160%). The FY2025 spike's drivers are not fully documented; if it reflects a single large project, base-case projections may be optimistic.
- Gross margin concentration: the jump from 38–45% (FY2022–23) to 60%+ (FY2024–25) is the most important unresolved question. Sustained pricing power vs. favorable job mix determines whether every strategic option is attractive or marginal.
- Customer concentration is not quantifiable at the AV segment level. Consolidated Attronica's top-1 customer is 35.5% of total revenue — a figure that warrants active diversification regardless of the strategic path chosen.
- DSO of 90 days (government and education clients) is structural and not improvable. Payroll runs every 14 days. The cash gap must be funded from Attronica's balance sheet, not from faster invoicing.

Financial Snapshot

(\$) AV Division	FY2022A	FY2023A	FY2024A	FY2025A
Revenue	\$2,720,913	\$1,935,744	\$2,841,449	\$5,035,475
YoY Revenue Growth %	-32.7%	-28.9%	+46.9%	+77.2%
Gross Profit	\$1,042,096	\$866,825	\$1,865,720	\$3,079,026
Gross Margin %	38.3%	44.8%	65.7%	61.1%
Loaded Labor Cost	\$984,987	\$961,513	\$1,692,946	\$2,037,219
AV Costs	\$85,034	\$82,599	\$237,565	\$217,180
Net Profit (EBIT proxy)	(\$27,925)	(\$177,287)	(\$64,791)	\$824,627

Source: Attronica internal P&L records, AV BUSINESS tab. Net Profit = Gross Profit – Loaded Labor – AV Costs. No D&A line exists at the AV segment level; EBITDA ≈ EBIT for this services division.

Company Overview

Business Model

Attronica's AV division designs, supplies, and installs audio-visual infrastructure — display systems, integrated A/V controls, structured cabling, and low-voltage technology — for commercial, education, government, and non-profit clients. Revenue is project-based and labor-driven. The division carries no inventory: all project materials are sourced against confirmed orders, which is why the division's working capital profile is structurally cleaner than consolidated Attronica's floor-plan-financed product business.

The division operates on a cost-plus pricing model — the most likely driver of the gross margin expansion from 38–45% in FY2022–2023 to 60%+ in FY2024–2025. Under cost-plus, material and subcontractor costs are marked up at a fixed rate, anchoring margin improvement to estimating discipline and project mix rather than volume alone. This creates significant margin leverage when average project size increases, and significant margin compression when the mix shifts toward lower-markup work.

Revenue History

The six-year revenue record is the most important context for every strategic option. The division is not a steady-state business. It has demonstrated the capacity to reach \$4–5M in peak years and fall below \$2M in trough years — a range that makes the choice of base case assumption consequential for any valuation or investment decision.

FY2021 (\$4.0M) and FY2025 (\$5.0M) are the two peak years. Both were reached on a cost base of 17–18 technicians, which means the division's fixed cost structure is already sized for \$5–6M in revenue. The relevant question is not whether the cost structure can support growth — it can — but whether the demand exists to fill it consistently. Three of the six years on record (FY2022, FY2023, FY2024) produced EBIT losses. FY2025 is an outlier in the right direction; confirming it is not an exception is the first strategic task.

Segment Position

Dimension	AV Division
End Markets	Commercial (core), Education (core), Government (growing: 8.2% → 10.4% of Attronica consolidated FY2022–FY2025), Non-profit (underrepresented).
Customer Types	Municipal and county governments, K–12 and higher education institutions, commercial real estate and corporate clients. DSO structural at 90 days.
Contracts	Project-based (bid and awarded). Cost-plus pricing model. No disclosed backlog. Revenue recognized on project completion.
Labor Model	18 employees (1 manager, 17 technicians). Loaded labor \$2.04M in FY2025 (40.5% of revenue). New hire loaded cost ~\$70K. Ramp: ~4 months.
CapEx / Inventory	Near-zero CapEx. Zero inventory (pure services). Tools, equipment, and subcontractor costs run through operating AV Costs line.

Financial Performance & Growth Outlook

Historical Performance

(\$M unless noted) AV Division	FY2022A	FY2023A	FY2024A	FY2025A
Revenue	\$2,720,913	\$1,935,744	\$2,841,449	\$5,035,475
YoY Growth %	-32.7%	-28.9%	+46.9%	+77.2%
Gross Margin %	38.3%	44.8%	65.7%	61.1%
LL % of Revenue	36.2%	49.7%	59.6%	40.5%
AV Costs % of Rev	3.1%	4.3%	8.4%	4.3%
EBIT Margin %	-1.0%	-9.2%	-2.3%	+16.4%

Six-year gross margin average: 45.9%. LL % of revenue is the largest variable cost lever. FY2024's 59.6% LL ratio reflects a revenue trough on an unchanged payroll base — the clearest illustration of operating leverage in the model.

Forward Projections

(\$) AV Division	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
Revenue	\$5,539,023	\$6,009,839	\$6,490,626	\$6,944,970	\$7,361,668
YoY Growth %	+10.0%	+8.5%	+8.0%	+7.0%	+6.0%
Gross Margin %	42.0%	42.5%	43.0%	43.5%	45.0%
Gross Profit	\$2,326,389	\$2,554,182	\$2,790,969	\$3,021,062	\$3,312,751
EBIT	(\$83,085)	(\$30,049)	(\$64,906)	\$69,450	\$147,233
EBITDA (est.)	(\$55,390)	~\$0	(\$32,453)	\$104,175	\$184,042

Growth outlook. The base case projects revenue growing 10% in FY2026, decelerating to 6% by FY2030, reaching approximately \$7.4M. Gross margin is held conservatively at 42–45% — well below FY2024–2025 actuals of 60%+ — reflecting uncertainty about whether the recent margin expansion is durable. Under this assumption, EBIT is negative through FY2028, turning profitable in FY2029. The projection is deliberately conservative: it is designed to establish a floor, not a forecast. If FY2025's 61% gross margin proves structural, EBIT flips positive in FY2026 without a single new hire or cost action — purely from applying the existing cost base to growing revenue.

Downside protection. The division's services-only model carries near-zero CapEx (1% of revenue or less) and zero inventory financing. Even in a revenue contraction scenario, Attronica's \$3.4M net cash position provides a sufficient buffer: the modeled labor cash gap for a bullish 7-hire scenario is approximately \$102K — manageable from cash on hand without a credit facility.

Strategic Options, Valuation & FP&A Take

Strategic Options Considered

Recommendations anchored to numbers from the DCF, P&L history, and stress test — not to strategy in the abstract. Each path leads to a different outcome for Niel.

Organic investment is the highest-value near-term path.

The division's cost structure is already built for \$6–7M in revenue. FY2025 proved what the business is capable of: \$5M in revenue, 61% gross margin, \$825K net profit — on 17 technicians and zero new capital. Sustaining this trajectory for two to three years, while actively diversifying the customer base, captures full upside without ownership dilution, external financing, or integration risk. The principal cost is operational: the discipline to protect margin, hold headcount until revenue confirms the trend, and build a pipeline that is not dependent on any single client relationship.

Bolt-on acquisition of a sub-scale AV integrator is a viable secondary path.

Attronica's \$3.4M net cash position is sufficient to fund a tuck-in acquisition in the \$1–3M revenue range at 3–5× EBITDA without external financing. The AV integrator market is fragmented; motivated sellers exist at this scale. Each acquisition could add 15–25% to AV revenue immediately and expand geographic or vertical reach. The principal risk is integration: poorly absorbed acquisitions compress margins by 200–400 bps during the absorption window. This path is only actionable once FY2026 revenue confirms the base case — not before.

Minority PE stake, ESOP, recapitalization, and status quo.

A minority PE stake is structurally complex for a division rather than a standalone company, and the division's negative projected EBIT through FY2028 (base case) is not a PE-ready profile today. An ESOP cannot be applied to AV in isolation from Attronica; ESOP debt requires stable, predictable cash flow that AV has not yet demonstrated on a multi-year basis. Recapitalization adds cost without adding capacity in a services business with no hard assets to pledge. Status quo is only acceptable for 12 months and only if used deliberately to build the diversified pipeline that organic growth requires — not as a default.

Indicative Valuation Range

Three methodologies applied against FY2025 actuals. The wide spread across methods reflects the gross margin assumption: the division looks very different at 42% GM vs. 61% GM.

- DCF — Intrinsic Value (base case, 42% GM): approximately \$0 to \$132K. 20.4% WACC (build-up); 2.5% terminal growth; 4.5× exit EBITDA cross-check. Negative UFCF in FY2026–FY2028 nearly eliminates terminal value. If FY2025's 61% GM holds, EV improves to \$800K–\$1.2M intrinsic floor under the same discount rate.
- Exit Multiple (private AV integrator M&A precedent): \$530K–\$1.06M at 3–6× FY2025 EBITDA. Private AV integrators trade at the low end of the infrastructure-services M&A range; no public comparable set is applied at this revenue scale.
- Strategic value to Attronica: uncapped by standalone DCF. AV generates 34% of consolidated gross profit at 8% of revenue, fully loaded on shared overhead. The strategic value to Niel as a founder-owner is materially higher than any standalone transaction value — which is the strongest argument for the organic investment path over any exit or recapitalization.

FP&A Take

The analysis supports organic investment as the primary path, with selective bolt-on acquisition as a complementary lever once FY2026 revenue is confirmed. The division has already demonstrated what it can do at full capacity — FY2025 is the proof point, not a projection. The action is to protect and replicate it: cost-plus pricing discipline, customer diversification below 25% concentration for any single client, and headcount held stable until the revenue trend is confirmed across at least two consecutive quarters.

The wide spread in the valuation range — from near zero (DCF base case) to \$1M+ (sustained-GM DCF) to strategic value that exceeds any transaction price — is almost entirely the gross margin question. Every decision Niel makes in the next 12 months should be oriented around answering it.

What to monitor (12–18 months).

- Gross margin sustainability — two consecutive quarters above 50% confirms the structural shift; below 40% triggers a cost-structure review.
- Customer concentration — track top AV client as % of division revenue monthly. Target: no single client above 25% of AV revenue by end of FY2026.
- Revenue confirmation — FY2026 at or above \$5.5M validates the base-case projection and opens the door to deliberate organic hiring (earliest: Q3 FY2026).
- Acquisition pipeline — if Attronica's net cash position exceeds \$4M by mid-FY2026 and AV revenue is on track, evaluate 1 sub-scale competitor at 3–5× EBITDA.

Worked example for internal planning purposes. Not investment advice. Market data and multiples should be refreshed before any external transaction process.