M&A FINANCIAL DUE DILIGENCE REPORT

Acquisition Financial Audit & Quality of Earnings Analysis

Target: **Synapse Systems Inc.** | Buyer: **Apex Global Holdings**

STRICTLY CONFIDENTIAL

Date: July 24, 2026

Advisor: Meridian Advisory Group

ENTERPRISE VALUE	ADJ. EBITDA (FY25)	IMPLIED MULTIPLE	ADJUSTED NET DEBT	RECOMMENDED NWC
$138.5M	**$18.4M**	**7.53x**	**$12.8M**	**$8.5M**
Agreed Headline EV	+$4.2M vs Reported	EV / Adj. EBITDA	Incl. Debt-like Items	Proposed Target Peg

SECTION 1 | Executive Summary & Transaction Architecture

Meridian Advisory Group was engaged by **Apex Global Holdings** ("Buyer") to perform a comprehensive financial due diligence audit of **Synapse Systems Inc.** ("Target" or "Synapse") in connection with the proposed acquisition of 100% of the issued share capital. Synapse is a provider of cloud-native workflow automation software and data integration platforms serving mid-tier financial institutions.

> **Key Audit Summary & Investment Committee Verdict:**
> Our Quality of Earnings (QoE) analysis confirms an **Adjusted FY25 EBITDA of $18.4M** (a net positive addback of **+$4.2M** over reported EBITDA of $14.2M). Historical revenue grew at a 22.4% CAGR (FY23–FY25). Key deal risks include **31.2% customer concentration** across the top 3 accounts and **$1.8M/yr of capitalized R&D software costs** that require ongoing operational expense treatment. We recommend executing the transaction with an adjusted Purchase Price incorporating a **$12.8M Net Debt deduction** and a **$8.5M Working Capital Target Peg**.

Transaction Valuation & Implied Multiple Bridge

Valuation Component	Reported Basis	Adjusted Basis	Diligence Audit Rationale & SPA Guidance
Headline Purchase Price (Equity Value)	$125.7M	$125.7M	Subject to closing cash/debt purchase price adjustment
Reported Debt & Capital Lease Liabilities	$8.5M	$12.8M	Includes $4.3M in off-balance sheet debt-like reserves
Less: Cash & Cash Equivalents	($4.2M)	($3.6M)	Reclassifies $0.6M restricted operational cash buffer
Implied Enterprise Value (EV)	**$130.0M**	**$134.9M**	**Effective EV increases by $4.9M post-audit adjustments**
FY25 Revenue	$64.8M	$62.4M	Reallocates $2.4M out-of-period software license revenue
FY25 EBITDA	$14.2M	$18.4M	Reflects net QoE normalization addbacks of +$4.2M
Implied EV / EBITDA Multiple	**9.15x**	**7.33x**	**Normalized multiple de-risks entry valuation**

Table 1.1: Transaction Valuation & Implied Multiples Overview (USD)

Scope of Financial Due Diligence Audit

Our investigation encompassed: (i) Quality of Earnings (QoE) analysis for FY23, FY24, FY25, and LTM Q2-2026; (ii) Revenue quality, ARR persistence, and customer retention metrics; (iii) Net Debt and debt-like item identification; (iv) Net Working Capital (NWC) seasonality and peg calculation; and (v) Internal control environment assessment.

SECTION 2 | Quality of Earnings (QoE) & EBITDA Adjustments

Management reported FY25 EBITDA of $14.20M. Based on detailed audit testing of revenue recognition contracts, payroll allocations, discontinued operations, and capitalization policies, we identified net addbacks of **+$4.20M**, establishing **Normalized FY25 EBITDA of $18.40M**.

EBITDA Adjustment Bridge Schedule

Adjustment Category (in $000s)	FY23	FY24	FY25	LTM Q2-26	Diligence Audit Rationale
Reported EBITDA (Management)	**9,850**	**12,100**	**14,200**	**15,600**	As presented in audited financials
1. Out-of-Period Revenue Recognition	(850)	350	(2,400)	1,100	ASC 606 ratable software alignment
2. Founder Excess Compensation	1,200	1,250	1,300	1,350	Adjustment to market C-suite salary
3. Non-Recurring Litigation Defense	450	1,100	850	120	Settled IP litigation defense costs
4. Discontinued Hardware Unit Loss	680	420	1,650	400	Closure of legacy hardware division
5. R&D Software Capitalization Reversal	(1,100)	(1,450)	(1,800)	(2,100)	Reclassification of bug fix maintenance
6. Duplicate Vendor Contract Synergies	0	0	4,600	4,800	Contracted post-closing IT synergies
Total QoE EBITDA Adjustments	**380**	**1,670**	**4,200**	**5,670**	**Net Quality of Earnings Addbacks**
Adjusted Normalized EBITDA	**10,230**	**13,770**	**18,400**	**21,270**	**24.2% CAGR (FY23–FY25 Normalized)**

Table 2.1: Detailed EBITDA Normalization & QoE Adjustments Breakdown (USD 000s)

Detailed Rationale for Primary QoE Adjustments

1. **Out-of-Period Revenue Alignment ($-2.40M in FY25):** Synapse recognized multi-year cloud contract fees upfront upon signing under legacy ASC 605 rules. Under ASC 606 ratable principles, $2.4M of FY25 revenue belongs to FY26 contract periods.
2. **Founder Excess Compensation (+$1.30M in FY25):** Founding executives drew $2.5M in annual compensation. Executive search benchmarking establishes replacement executive compensation at $1.2M annually, creating a recurring $1.3M cost reduction.
3. **Capitalized R&D Software Reversal ($-1.80M in FY25):** Management capitalized 65% of software engineering payroll. Audit testing determined 40% of this work involves maintenance and bug fixes, requiring ongoing OpEx treatment.

SECTION 3 | Revenue Quality & Customer Concentration

Synapse generates revenue across two principal streams: **SaaS Cloud Subscriptions** (78.4%) and **Professional Services** (21.6%). Annual Recurring Revenue (ARR) reached **$51.2M** as of Q2-2026, with an annual net revenue retention rate of **112.4%**.

Account Code	Industry Sector	FY25 ARR ($M)	% Total ARR	Contract Expiry	Renewal Risk Assessment
Client Nexa Corp	Wealth Management	$6.8M	13.3%	Nov 2027	Low risk; core platform deployment
Client Vertex Financial	Capital Markets	$5.2M	10.2%	Mar 2027	Medium risk; pending CTO leadership change
Client Nimbus Insurance	InsurTech	$4.0M	7.7%	Dec 2026	**High risk; client running vendor RFP**
Client Apex Advisory	Asset Management	$3.1M	6.1%	Aug 2028	Low risk; expanded user seat licensing
Client Meridian Capital	Private Equity	$2.4M	4.7%	Jan 2027	Low risk; multi-year lockup agreement
Top 5 Accounts Total	**Financial Services**	**$21.5M**	**42.0%**	–	**Concentration requires SPA indemnity**

Table 3.1: Top Customer Concentration & Key Account Renewal Risk Analysis

SECTION 4 | Net Debt Schedule & Working Capital Peg

To establish the cash-free, debt-free equity purchase price adjustment at closing, Meridian audited balance sheet debt, capital leases, and off-balance sheet commitments.

Adjusted Net Debt Schedule

Balance Sheet & Debt-like Item	Reported ($000s)	Adjusted ($000s)	Diligence Adjustment Rationale
Senior Secured Revolving Credit Facility	$5,000	$5,000	Principal outstanding balance at Q2-2026
Equipment Leases (ASC 842 Capital Leases)	$3,500	$3,500	Office hardware and server infrastructure leases
Unfunded Employee Pension Liability	$0	$1,450	Actuarial valuation deficit in European subsidiary
State Sales Tax Audit Contingency Reserve	$0	$1,200	Potential historical nexus tax liability (FY22–FY24)
Deferred Transaction Executive Bonuses	$0	$1,650	Change-of-control bonus pool payable at closing
Less: Unrestricted Cash & Equivalents	($4,200)	($3,600)	Reclassifies $600k trapped operational cash buffer
Total Net Debt & Debt-like Obligations	**$4,300**	**$12,800**	**Recommended SPA Purchase Price Deduction: $12.8M**

Table 4.1: Comprehensive Net Debt & Debt-like Items Adjustment Schedule

Net Working Capital (NWC) Target Peg Recommendation

Historical working capital shows seasonal expansion in Q4 due to annual enterprise subscription billings. The 12-month trailing average NWC is **$8.50M**. We advise establishing an NWC Target Peg of **$8.50M** in the Stock Purchase Agreement (SPA).

Working Capital Metric ($000s)	Q3-2025	Q4-2025	Q1-2026	Q2-2026	12-Mo Avg
Accounts Receivable (A/R)	9,400	12,200	8,900	10,100	10,150
Prepaid Expenses & Current Assets	1,200	1,500	1,100	1,300	1,275
Less: Accounts Payable (A/P)	(3,100)	(4,200)	(2,900)	(3,400)	(3,400)
Less: Accrued Expenses & Payroll	(1,100)	(1,600)	(1,200)	(1,400)	(1,325)
Reported Net Working Capital	**$6,400**	**$7,900**	**$5,900**	**$6,600**	**$6,700**
Addback: Normalization for Deferred Revenue	$1,800	$1,800	$1,800	$1,800	$1,800
Adjusted Operational NWC	**$8,200**	**$9,700**	**$7,700**	**$8,400**	**$8,500**

Table 4.2: Historical Working Capital Analysis & Proposed NWC Target Peg

SECTION 5 | Key Transaction Risks & SPA Protections

Risk Area	Severity	Exposure	Recommended SPA Mechanism / Negotiation Action
Client Concentration Churn	**HIGH**	$4.0M ARR	Specific indemnity or earn-out structure tied to Client Nimbus renewal.
Sales Tax Audit Exposure	**MEDIUM**	$1.2M	Special tax indemnity backed by 100% cash escrow held for 18 months.
Capitalized R&D Reversal	**MEDIUM**	$1.8M/yr	Incorporate maintenance OpEx into post-close buyer budget models.
Pension Deficit	**LOW**	$1.45M	Deduct full $1.45M from Purchase Price as a Debt-like item at closing.

Table 5.1: Summary Risk Matrix & SPA Protection Recommendations

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Accepted & Acknowledged: Apex Global Holdings

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