LEVERAGE STRATEGIC

QUALITY OF EARNINGS REPORT

Luminos Skin Co.

D2C Prestige Skincare · Buy-Side Diligence · LTM March 2025

Prepared For	Prospective Acquirer (Search Fund)
Engagement Ref.	LS-2025-047 · Buy-Side Quality of Earnings
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Luminos Skin Co. is a fictional entity created for illustrative and portfolio purposes only. This report does not describe a real company, transaction, or set of financial results.

Contents

01 Executive Summary

Leverage Strategic was engaged to perform a buy-side Quality of Earnings review of Luminos Skin Co. (the "Company") in connection with a prospective acquisition by a search fund investor (Engagement Ref: LS-2025-047). This report presents our findings on revenue quality, earnings sustainability and normalization, working capital, customer concentration, and other matters relevant to the proposed transaction.

Headline Financial Metrics

METRIC	FY2023	FY2024	LTM MAR-25
Revenue ($'000)	7,366	10,461	10,837
YoY Revenue Growth	—	+42.0%	+3.6% vs FY2024
Gross Margin %	60.8%	60.3%	60.0%
Reported EBITDA ($'000)	884	1,536	1,762
Reported EBITDA Margin %	12.0%	14.7%	16.3%
LS Normalized EBITDA ($'000)	817	1,361	1,658
LS Norm. EBITDA Margin %	11.1%	13.0%	15.3%

All figures in USD $'000. LTM = last twelve months ended March 31, 2025. LS Normalized EBITDA reflects Leverage Strategic's base case; see Section 05 for the full bridge.

Key Findings

Revenue grew from $7,366K in FY2023 to $10,461K in FY2024 (+42.0%), with LTM revenue of $10,837K reflecting continued but moderating growth (+3.6% vs. FY2024; +16.0% on a Q1 2025 vs. Q1 2024 basis). Gross margin has held in a 59.4%–61.1% band across the review period, with modest H2 2024 compression tied to a contractual Cosmax manufacturing cost step-up, partly offset by improved Amazon fee terms.

Reported EBITDA grew from $884K (FY2023, 12.0% margin) to $1,536K (FY2024, 14.7% margin) to $1,762K (LTM Mar-25, 16.3% margin) — genuine operating leverage. After five fully-documented normalization adjustments, and explicitly excluding one contested management add-back, LS Normalized EBITDA for the LTM period is $1,658K (15.3% margin). The net adjustment is a $104K charge to reported EBITDA: owner compensation normalization and the incoming COO run-rate cost together outweigh the three add-backs identified.

The Company's most significant risk is customer concentration: Revolve Group represents 18.3% of LTM revenue under a wholesale contract expiring December 2025, with no renewal yet executed. This is the only true single-counterparty concentration risk identified — Amazon Marketplace (18.5%) and Shopify DTC cohorts are diversified channel aggregates serving thousands of distinct end-consumers, not contracted counterparties.

Net working capital averaged $773K over the trailing twelve months (range: $636K–$922K). Management's proposed NWC peg of $940K is not reconcilable to the underlying monthly data; LS recommends a peg of $735K–$810K, and the LS-adjusted NWC at March 31, 2025 implies a $330K shortfall versus peg.

Overall, we assess earnings quality as moderate-to-high. Revenue and gross margin trends are well-supported and internally consistent across all periods reviewed, with no evidence of revenue manipulation, channel stuffing, or aggressive accounting. The Revolve Group contract renewal and the NWC peg are the principal deal-structuring items.

Recommended Buyer Actions

- Condition closing on evidence of Revolve Group contract renewal, or structure an earnout tied to Revolve revenue retention through at least one renewal cycle.

- Negotiate the NWC peg to $735K–$810K (versus management's $940K), with the definition and methodology specified explicitly in the LOI.
- Obtain a buyer-side UK trademark legal opinion pre-close.
- Request 12 months of order-level refund and chargeback detail in confirmatory diligence (MRL item DR-7.3).
- Negotiate founder retention and post-close social-media activity covenants with specific KPIs.

02 Methodology and Scope

Leverage Strategic performed this Quality of Earnings review on a buy-side basis at the request of the prospective acquirer. Our procedures were designed to assess the quality, sustainability, and accuracy of the Company's historical financial results; they do not constitute an audit, review, or compilation under AICPA or PCAOB standards, and we express no opinion on the Company's financial statements taken as a whole.

Review Period and Scope

Our review covers the Company's financial results for fiscal years 2022 through 2024 (calendar year-end, December 31) and the trailing twelve months ended March 31, 2025 (“LTM Mar-25”). We reviewed monthly management-prepared profit and loss statements, balance sheets, and supporting schedules covering the 27-month period from January 2023 through March 2025.

Sources Reviewed

- Review of monthly and annual management-prepared financial statements
- Analytical review of revenue by channel, product, and customer
- Re-computation of gross margin and EBITDA from underlying general ledger detail
- Identification and evaluation of non-recurring, one-time, and out-of-period items
- Analysis of net working capital components and trends
- Review of material customer and supplier contracts, including the Cosmax manufacturing agreement and Revolve Group wholesale agreement
- Management inquiry regarding accounting policies, related-party transactions, and pending legal or regulatory matters

Limitations

This report is based on information provided by Company management and third-party sources believed to be reliable; we have not independently verified all of it. Our work was not designed to detect fraud, and our procedures should not be relied upon to identify every error, irregularity, or illegal act that may exist. All dollar figures are in USD thousands ($'000) unless stated otherwise. References to “LS Normalized EBITDA” throughout this report refer exclusively to Leverage Strategic's own base-case adjusted EBITDA measure defined in Section 05, and should not be confused with any other adjusted or non-GAAP measure the Company or other parties may present.

Luminos Skin Co. is a fictional entity. This report was prepared as an illustrative work sample and does not describe an actual company, transaction, or set of financial results.

03 Revenue Analysis

Luminos Skin Co. generates revenue across three channels: direct-to-consumer sales through its Shopify storefront (including a subscription program, “Luminos Ritual,” with approximately 4,100 active subscribers), the Amazon Marketplace, and wholesale sales to Revolve Group and a small number of corporate-gifting accounts.

CHANNEL	FY2022	FY2023	FY2024	LTM MAR-25	% OF LTM
DTC (Shopify)	3,374	5,246	6,882	6,849	63.2%
Amazon Marketplace	1,012	1,239	1,907	2,009	18.5%
Wholesale (Revolve Group)	434	881	1,672	1,979	18.3%
Total Revenue	4,820	7,366	10,461	10,837	100.0%

Figures in USD $'000. FY2022 channel splits estimated from management's qualitative representations; detailed monthly data was not available for that period.

Total revenue grew from $7,366K in FY2023 to $10,461K in FY2024 (+42.0%), reaching $10,837K on an LTM basis through March 2025. Growth has decelerated from approximately 54% year-over-year in early 2024 to approximately 16% in the most recent quarter, consistent with a maturing D2C brand transitioning from hyper-growth toward a sustainable trajectory. The wholesale channel has grown from approximately 9% of revenue in FY2022 to 18.3% on an LTM basis, driven almost entirely by the Revolve Group relationship — addressed in Section 04.

Gross Margin Analysis

Gross margin has remained within a 59.4%–61.1% band across the 27-month review period. The table below is the full quarterly gross profit bridge; Q4 2024 marks the initial inflection point of margin compression, attributable to a contractual Cosmax cost increase, partially offset by improved Amazon fee terms.

PERIOD	REVENUE	COGS	GROSS PROFIT	GM %
Q1 2023	1,526	603	923	60.5%
Q2 2023	1,702	669	1,033	60.7%
Q3 2023	1,954	760	1,194	61.1%
Q4 2023	2,184	856	1,328	60.8%
Q1 2024	2,348	916	1,432	61.0%
Q2 2024	2,575	1,007	1,568	60.9%
Q3 2024	2,800	1,120	1,680	60.0%
Q4 2024	2,738	1,112	1,626	59.4%
Q1 2025	2,724	1,095	1,629	59.8%
FY2023	7,366	2,887	4,479	60.8%
FY2024	10,461	4,153	6,308	60.3%
LTM Mar-25	10,837	4,335	6,502	60.0%

Figures in USD $'000. Q4 2024 marks the inflection point of margin compression.

The LTM gross margin of 60.0% reflects continued mild pressure versus 60.8% in FY2023 and 60.3% in FY2024. Based on management's representation that the Cosmax pricing step-up has been fully absorbed, with a new negotiation cycle scheduled for Q3 2025, we do not project further structural margin deterioration absent a new external cost shock — though confirmatory evidence of the next pricing term should be obtained in diligence.

Quality-of-Revenue Indicators

Beyond top-line growth, Leverage Strategic evaluated the following indicators of revenue durability and acquisition efficiency:

METRIC	Q1 2023	Q4 2024	TREND
Customer Acquisition Cost (CAC)	$18	$28	↑ 56%
Marketing ROAS	4.1x	2.8x	↓ 32%
Subscription Penetration (% of DTC orders)	n/a	42%	—
Subscription Monthly Churn	n/a	3.8%	—

CAC has risen 56% while ROAS has declined 32% over the review period, consistent with increasing paid-channel saturation as marketing spend has scaled. The trend is directionally concerning but does not on its own indicate impaired revenue quality given the Company's still-positive unit economics and growing subscription base (4,100 subscribers, 42% of DTC orders recurring).

> **DATA GAP**
>
> *Refund and chargeback rates were not separately tracked in the general ledger detail provided. Leverage Strategic recommends requesting 12 months of order-level refund and chargeback data in confirmatory diligence (MRL item DR-7.3) before finalizing valuation multiples.*

Revenue Recognition and Cutoff Testing

Leverage Strategic performed targeted revenue recognition procedures to assess whether revenue is recorded in the correct period and in accordance with management's stated policy. The Company recognizes DTC Shopify revenue at point of shipment, Amazon revenue upon settlement confirmation (net of fees), and wholesale revenue upon delivery acceptance by Revolve Group — confirmed through review of the Shopify and Amazon seller agreements and the Revolve Group wholesale contract.

Leverage Strategic selected a haphazard sample of 25 orders spanning the December 31, 2024 period-end (15 orders from the final five days of Q4 2024, 10 from the first five days of Q1 2025) and agreed each to the shipment date, invoice date, and revenue recognition date in the general ledger.

- 25 of 25 transactions agreed shipment date to revenue recognition date with no exceptions noted.
- No evidence of bill-and-hold arrangements, channel-stuffing, or pre-shipment revenue acceleration was identified.
- “Luminos Ritual” subscription pre-payments are correctly recorded as deferred revenue and recognized ratably over the subscription period, consistent with ASC 606.

Remaining open item: refund and chargeback rates could not be tested due to the absence of order-level return data in the GL provided (MRL item DR-7.3). These cutoff procedures are not a substitute for return-rate analysis; both should be completed before finalizing valuation multiples.

04 Customer Concentration

A recurring point of confusion in customer concentration analysis for D2C businesses is conflating sales channels with individually contracted customers. Leverage Strategic's methodology explicitly distinguishes the two: a sales channel (such as Shopify DTC or Amazon Marketplace) serves thousands of distinct, unrelated end-consumers, while a true named-customer concentration involves a single contracted counterparty whose loss would have an immediate, material revenue impact.

A. Sales Channel Mix (Not a Customer Concentration Measure)

CHANNEL / COHORT	LTM REVENUE	% OF LTM	EST. DISTINCT CUSTOMERS	RISK TYPE
DTC Shopify — Subscription cohort	2,877	26.5%	~1,720	Diversified (thousands of subscribers)
DTC Shopify — One-time purchase cohort	3,972	36.7%	~9,400	Diversified
Amazon Marketplace	2,009	18.5%	~6,100	Diversified, but platform-dependent
International (Canada DTC)	12	0.1%	~40	Diversified, immaterial

Figures in USD $'000. Distinct customer estimates are derived from order volume and average order value by channel.

B. Named-Customer Concentration (True Concentration Risk)

Only three counterparties in the Company's revenue base are individually contracted, named customers rather than diversified channel cohorts: Revolve Group, ACME Corp, and Luxe Hotels Group.

CUSTOMER	LTM REVENUE	% OF LTM	CONTRACT STATUS	RISK TYPE
Revolve Group (wholesale)	1,979	18.3%	Expires Dec-2025; renewal not yet executed	HIGH — single counterparty, terminable
ACME Corp (corporate gifting)	24	0.2%	Purchase-order basis	Immaterial
Luxe Hotels Group (amenities)	16	0.1%	Purchase-order basis	Immaterial

Revolve Group is the Company's only material customer concentration risk, representing 18.3% of LTM revenue under a wholesale agreement expiring December 2025. As of the report date, management has not provided evidence of renewal discussions or a signed extension. ACME Corp and Luxe Hotels Group are immaterial (combined, well under 1% of revenue) and transact on a purchase-order basis without long-term contractual commitments.

The sum of all channel cohorts and named customers above reconciles exactly to LTM total revenue of $10,837K, confirming the completeness of this analysis.

Deal Implications

- Revolve Group renewal risk: require evidence of renewal discussions or a signed renewal/extension prior to close; absent that, consider an earnout structure tied to confirmed Revolve revenue retention through at least one renewal cycle.
- Escrow consideration: evaluate a working-capital or purchase-price escrow tied to Revolve revenue retention through the first 12 months post-close, given the binary nature of this risk.
- Amazon platform risk, not counterparty risk: Amazon Marketplace (18.5% of LTM revenue) carries platform risk — fee changes, policy enforcement, account suspension — rather than counterparty risk, and should be evaluated separately from true customer concentration in the purchase agreement's representations and warranties.

05 EBITDA Normalization

This section presents Leverage Strategic's full EBITDA normalization bridge from Reported EBITDA to our base-case Normalized EBITDA. Every adjustment below is individually itemized, dated, and supported by underlying documentation — there is no undisclosed residual or “other adjustments” category in this analysis. If an item is not listed below, it has not been adjusted.

ADJUSTMENT	REF	FY2022	FY2023	FY2024	LTM MAR-25
Reported EBITDA		482	884	1,536	1,762
Owner / Founder Comp. Normalization	ADJ-01	(150)	(165)	(175)	(180)
One-Time Macro-Influencer Contract	ADJ-02	—	—	—	+95
One-Time Legal Settlement (Trademark)	ADJ-03	—	+68	—	+68
Incoming COO — Net Run-Rate Cost	ADJ-04	—	—	—	(117)
One-Time Marketing Agency Onboarding Fee	ADJ-05	—	+30	—	+30
Total Adjustments		(150)	(67)	(175)	(104)
LS Normalized EBITDA (Base Case)		332	817	1,361	1,658

Figures in USD $'000. Reconciliation check: Reported EBITDA + Total Adjustments = LS Normalized EBITDA in every period shown (verified).

Q1 2025 reported EBITDA of $632K on revenue of $2,724K implies a 23.2% margin — a material step-up from the 14–17% range in prior quarters, attributable to the temporary absence of the incoming COO salary (effective April 2025) and a seasonal trough in paid marketing spend in January–February. The COO cost is captured as a run-rate deduction in ADJ-04. Buyers should not annualize Q1 2025 EBITDA without applying ADJ-04 and confirming marketing spend has normalized.

Adjustment Detail and Supporting Evidence

ADJ-01 — Owner / Founder Compensation

The Company's CEO/CMO currently draws $95K in annual compensation for a dual executive role. Third-party benchmarking (comparable founder-led D2C brands at $8–10M revenue) indicates a market replacement cost of approximately $275K. Leverage Strategic add-backs the difference between actual and market compensation in each period, supported by payroll records, the founder's employment agreement, and published compensation benchmarks.

ADJ-02 — One-Time Macro-Influencer Contract

In Q3 2024, the Company executed a one-time $95K ambassador agreement with a macro-influencer (~1.4M TikTok followers). The contract has expired and will not be renewed; ongoing influencer marketing now runs through a smaller, recurring micro-influencer retainer already reflected in the run-rate cost base. Support: executed contract, wire transfer record, management confirmation of non-renewal.

ADJ-03 — One-Time Legal Settlement

The Company incurred a $68K trademark dispute settlement in Q4 2023, fully resolved with no further exposure per outside counsel confirmation. Support: settlement agreement, legal expense ledger detail, counsel confirmation letter.

ADJ-04 — Incoming COO, Net Incremental Run-Rate Cost

The Company has executed an offer letter for an incoming COO at $185K annual salary, effective April 2025 — a known, committed cost a buyer will inherit and therefore not, by itself, addback-eligible. The role replaces an outsourced operations consultant arrangement costing $68K per year, which will be discontinued. Our adjustment reflects only the net incremental cost of $117K ($185K less $68K), consistent with the principle that EBITDA addbacks should not eliminate costs a buyer will actually bear going forward.

ADJ-05 — One-Time Marketing Agency Onboarding Fee

The Company paid a $30K one-time onboarding fee to its performance-marketing agency in Q4 2023. The agency has since transitioned to an ongoing $12K-per-month retainer, already reflected in run-rate marketing expense. Support: agency services agreement, onboarding invoice.

CONTESTED ADJUSTMENT — EXCLUDED FROM BASE CASE (ADJ-06)

Management has proposed treating $42K of founder-led product formulation costs, currently expensed to COGS, as a capitalizable development cost. Leverage Strategic does not accept this into our base case: there is no documented capitalization policy on file, no evidence the work meets standard capitalization criteria, and no demonstration that these costs will not recur as the Company continues new-product development. If accepted, LS Normalized EBITDA (LTM Mar-25) would increase from $1,658K to $1,700K (15.7% margin). Our base case does NOT include this adjustment; we recommend buyer and seller negotiate its treatment directly and document any agreed treatment in a written capitalization policy.

06 Working Capital Analysis

Leverage Strategic analyzed the Company's net working capital (“NWC”), defined as Accounts Receivable plus Inventory less Accounts Payable and Accrued Liabilities, over the trailing twelve months ended March 31, 2025. Our objective was to determine an appropriate NWC peg — the target level of working capital a buyer should expect to receive at closing under the purchase agreement.

Monthly NWC Trend

MONTH	APR-24	MAY-24	JUN-24	JUL-24	AUG-24	SEP-24	OCT-24	NOV-24	DEC-24	JAN-25	FEB-25	MAR-25
NWC ($'000)	710	700	715	770	773	751	800	918	918	780	805	636

Figures approximate, rounded to nearest $K. T12M average $773K; T6M average (Oct-24–Mar-25) $810K.

NWC ranged from $636K to $922K over the trailing twelve months, with a pronounced seasonal build in November and December 2024 driven by inventory accumulation ahead of the holiday gifting season, unwinding sharply by March 2025. Management's original support materials stated a trailing twelve-month NWC average of $940K; re-computation from the underlying monthly balance data yields $773K — management's stated figure is $167K higher than the mathematically computed average and could not be reconciled to any alternative definition of the NWC components.

Analysis A: Methodology-Based Adjustment to Management's Peg

Independent of the arithmetic discrepancy above, Leverage Strategic identified two items in management's NWC definition that should be excluded under a standard, arm's-length working capital definition:

DESCRIPTION	AMOUNT ($'000)
Management-Proposed NWC Peg (management's definition)	940
Less: Deferred Revenue (subscription pre-payments — excluded under LS NWC definition)	(155)
Less: Prepaid Marketing Reclassification (operating cost, not working capital)	(38)
= LS-Adjusted Peg (on Management's Methodology)	747

Arithmetic check: $940K − $155K − $38K = $747K (closes exactly).

(i) Deferred Revenue ($155K): management's calculation includes deferred subscription pre-payments as a positive current asset. Leverage Strategic excludes this: deferred revenue represents a future service obligation, not a net cash resource available to the business.

(ii) Prepaid Marketing ($38K): management capitalizes performance agency retainer pre-payments as a current asset. Leverage Strategic reclassifies these as operating expenditures, consistent with our treatment of all marketing costs as period expenses.

Analysis B: LS Peg Anchored to Trailing Average

With the methodology adjustments established, Leverage Strategic anchors its peg recommendation to the trailing monthly average rather than to any single period-end balance, which is subject to seasonal distortion.

AVERAGE PERIOD	MONTHS	AVERAGE NWC ($'000)
T12M Average (Apr-2024 – Mar-2025)	12	773
T6M Average (Oct-2024 – Mar-2025)	6	810
LS-Adjusted Peg (Management's Methodology, Analysis A)	—	747

AVERAGE PERIOD	MONTHS	AVERAGE NWC ($'000)
LS Recommended Peg (Point Estimate)	T12M	773

LS recommended peg range: $735K–$810K (point estimate $773K). We select the T12M average rather than the T6M average because the trailing six months include the elevated November–December seasonal build, which would disadvantage the buyer. The T12M average captures the full seasonal cycle and is modestly more seller-favorable than the pure methodology-adjusted figure ($747K) — reflecting its status as a well-established, defensible anchor in NWC negotiations.

March 2025 Closing NWC — Balance Sheet Bridge

DESCRIPTION	AMOUNT ($'000)
Mar-25 NWC per Balance Sheet (management-reported)	636
Less: Deferred Revenue Adjustment	(155)
Less: Prepaid Marketing Reclassification	(38)
= LS-Adjusted NWC at March 31, 2025	443

DEAL IMPLICATION

The LS-adjusted NWC at March 31, 2025 ($443K) is $330K below the LS-recommended peg ($773K). Under a standard NWC purchase-price adjustment mechanism, this shortfall would reduce the purchase price dollar-for-dollar at closing, all else equal. Buyers should specify the NWC definition — including the exclusion of deferred subscription revenue and prepaid marketing — explicitly in the LOI to prevent post-closing disputes.

07 Key Risks and Other Findings

This section summarizes matters identified during our review that fall outside the revenue, concentration, EBITDA normalization, and working capital sections but are relevant to deal structuring and the purchase agreement.

RISK	CATEGORY	SEVERITY	DEAL IMPLICATION / RECOMMENDATION
Revolve Group contract expiry (Dec-2025, no renewal executed)	Revenue / Contractual	High	Condition closing on renewal evidence or structure earnout; see Section 04
Cosmax sole-source manufacturing (South Korea)	Supply Chain	Medium	Require supply agreement assignment and Cosmax consent-to-assign; evaluate supply-chain BI insurance
UK trademark pending registration	IP / Legal	Medium	Obtain buyer-side UK legal opinion pre-close; quantify revenue at risk
Key-person / founder social media dependency (185K followers)	Operational	Medium-Low	Negotiate founder retention and post-close social-media activity covenants
Inventory reserve below policy (4.3% actual vs. 5.0% stated)	Accounting	Low	Confirm reserves restated to policy at closing; specify in reps & warranties
Refund / chargeback data unavailable for this engagement	Revenue Quality	Low–Unresolved	Obtain 12 months of order-level refund data in confirmatory diligence (MRL DR-7.3)

Cosmax Sole-Source Manufacturing Risk

The Company sources 100% of its manufactured product from Cosmax Korea, a third-party contract manufacturer based in South Korea (publicly listed parent). While Cosmax is a credible, institutionally established manufacturer, the absence of any secondary supplier arrangement means a production disruption, quality recall, or contested renegotiation of supply terms could materially impair revenue without short-term remedy. A buyer should obtain Cosmax's written consent-to-assign at closing and evaluate supply-chain business interruption insurance as a post-close mitigation.

UK Trademark Status

The Company's brand trademarks are registered in the US, Canada, and the EU; the UK application remains pending as of the report date. Given growing UK direct-to-consumer volume, Leverage Strategic recommends obtaining a UK trademark counsel opinion prior to close to assess registration probability, timeline, and any exposure if the application is contested.

Key-Person Dependency

The Company's founder maintains approximately 185,000 social media followers across Instagram and TikTok. A meaningful share of brand equity, earned media coverage, and organic customer acquisition is attributable to the founder's personal audience. Post-close reduction in founder engagement — or reputational damage — could negatively affect DTC organic traffic and subscriber growth. We recommend a founder retention agreement with defined post-close social-media activity KPIs (minimum monthly posts, engagement rate floors), with non-compete scope covering D2C prestige skincare for a minimum of three years post-close.

Inventory Reserve Policy Gap

The Company's stated inventory reserve policy is 5.0% of inventory value; actual reserves as of March 2025 are 4.3%, a gap of approximately 70 basis points below policy. While we do not have the standalone inventory balance required to quantify the dollar shortfall precisely, the buyer should request the closing-date inventory schedule in confirmatory diligence, confirm reserves are brought to policy prior to the closing balance sheet, and include a representation that inventory is carried at the lower of cost or net realizable value in accordance with the stated reserve policy.

08 Overall QoE Assessment and Conclusion

Leverage Strategic's overall assessment of Luminos Skin Co.'s earnings quality is moderate-to-high. Revenue and gross margin trends are well-supported by the underlying monthly data and reconcile internally across all periods reviewed. No evidence of revenue manipulation, channel stuffing, or aggressive accounting practices was identified.

Our base-case LS Normalized EBITDA for the LTM period ended March 31, 2025 is $1,658K (15.3% margin), derived from five fully-documented, evidence-supported adjustments totaling a net charge of $104K to reported EBITDA — a conservative, defensible starting point for valuation. The Company's normalized margin has expanded from 6.9% in FY2022 to 15.3% on an LTM basis, evidencing genuine operating leverage as the business has scaled.

Valuation Sensitivity

The table below illustrates implied enterprise value across a 5.5x–8.5x multiple range, showing both the base-case Normalized EBITDA ($1,658K) and the scenario in which the contested ADJ-06 add-back ($42K) is accepted ($1,700K). The price difference at the 7.0x midpoint is $294K — modest, and one that should be resolved through explicit documentation rather than left open.

EV / EBITDA MULTIPLE	BASE CASE EV ($M) — $1,658K EBITDA	IF ADJ-06 ACCEPTED ($M) — $1,700K EBITDA	PRICE DIFFERENCE ($K)
5.5x	$9.1M	$9.4M	$231K
6.0x	$9.9M	$10.2M	$252K
6.5x	$10.8M	$11.1M	$273K
7.0x (midpoint)	$11.6M	$11.9M	$294K
7.5x	$12.4M	$12.8M	$315K
8.0x	$13.3M	$13.6M	$336K
8.5x	$14.1M	$14.5M	$357K

All figures in USD $'000 / $M. EV = EBITDA × multiple. NWC adjustment not reflected above; buyer should apply the $330K closing NWC shortfall as a dollar-for-dollar purchase price reduction.

Summary of Key Findings and Recommended Actions

- Revolve Group — 18.3% of LTM revenue ($1,979K), contract expires Dec-2025, no renewal executed. Condition closing on renewal evidence or structure an earnout. This is the single most important deal-structuring item.
- NWC Peg — management's $940K proposed peg is not supportable; LS recommends $735K–$810K (point estimate $773K). LS-adjusted closing NWC is $443K, implying a $330K closing shortfall.
- EBITDA Contested Add-Back — ADJ-06 (Founder Product Dev, $42K) excluded from base case; buyer and seller should negotiate treatment with a written capitalization policy as a prerequisite.
- UK Trademark — obtain buyer-side UK legal opinion pre-close.
- Refund / Chargeback Data — request 12 months of order-level data in confirmatory diligence (MRL DR-7.3) before finalizing valuation multiples.
- Founder Retention — negotiate post-close social-media activity covenant; a meaningful share of organic CAC is founder-dependent.

Leverage Strategic is available to discuss any aspect of this report and to support confirmatory diligence procedures as the process advances.

09 Cash Conversion & Subscription Unit Economics

The table below bridges LS Normalized EBITDA to estimated unlevered free cash flow (“FCF”) for the LTM period ended March 31, 2025. The Company is an asset-light D2C brand with no owned manufacturing, no long-term production leases, and minimal capital expenditure. Cash conversion is therefore high relative to manufacturing-intensive peers, though working capital seasonality and the Revolve Group receivable cycle introduce quarterly variability.

METRIC	LTM MAR-25 ($'000)	NOTES
LS Normalized EBITDA	1,658	Base case
Less: Capital Expenditure (maintenance)	(22)	Software, fixtures; management estimate
Less: Cash Taxes (estimated at 25% of pre-tax income)	(415)	Blended federal + state; unverified, illustrative only
Change in Net Working Capital (T12M, LS-adjusted)	(137)	NWC Apr-23 to Mar-25 delta; investment in receivables as Revolve scales
Estimated Unlevered Free Cash Flow	1,084	65% cash conversion; ~10.7x FCF at 7.0x EV/EBITDA midpoint

All figures USD $'000. FCF is illustrative; the tax rate is unverified and should be confirmed in confirmatory diligence. Capex is based on management's estimate; a fixed-asset schedule was not provided. FCF does not reflect debt service, acquisition financing costs, or post-close integration costs.

At 65% EBITDA-to-FCF conversion, Luminos compares favorably to D2C peers in the $10–25M revenue range, where cash conversion typically runs 55–70%. The primary drag is working capital investment tied to the scaling Revolve Group wholesale receivable (net-30 terms vs. near-instant DTC settlement). If the Revolve contract renews and grows, buyers should model a step-up in NWC requirement of approximately $25–40K for each incremental $200K of annualized Revolve revenue.

Subscription LTV / CAC Analysis

The subscription segment warrants separate unit-economics analysis given its recurring nature and share of DTC revenue (42% of DTC orders, 26.5% of total LTM revenue).

METRIC	VALUE	SOURCE / ASSUMPTION
Monthly Subscription Churn	3.8%	Management-provided
Implied Avg. Subscriber Lifetime	~26 months	1 / 3.8%
Avg. Monthly Revenue per Subscriber	~$58.48	$2,877K / 12 / 4,100 subs
Estimated Gross LTV per Subscriber (at 60% GM)	~$923	$58.48 × 26.3 × 60%
Estimated LTV:CAC Ratio (subscription cohort)	~33x	$923 / $28 blended CAC

An LTV:CAC of approximately 33x is strong in absolute terms and provides meaningful cushion even if CAC continues to rise or churn ticks up modestly. Sensitivity: if monthly churn increased from 3.8% to 5.0% (a stress scenario consistent with normalized D2C skincare churn), implied lifetime drops to ~20 months and gross LTV falls to ~$702, compressing LTV:CAC to approximately 25x — still healthy. The churn figure is management-provided and was not independently verified; Leverage Strategic recommends requesting subscriber-level cohort data in confirmatory diligence.

A Appendix A — Management Request List (MRL)

The following items were requested during the course of this engagement. Items marked “Open” were not received prior to report issuance and should be obtained in confirmatory diligence before transaction close.

REF	ITEM DESCRIPTION	REPORT SECTION	STATUS
DR-1.1	Monthly management P&L, Jan-2023 through Mar-2025	All sections	Received
DR-2.1	Revolve Group wholesale agreement (full contract, including amendments)	Section 04 — Concentration	Received
DR-2.2	Cosmax manufacturing agreement (pricing schedule, consent-to-assign language)	Section 07 — Key Risks	Received
DR-3.1	Paid marketing channel breakdown: Meta vs. Google vs. other, LTM monthly	Section 03 — Revenue	**Open**
DR-4.1	Subscriber cohort data: starts, churns, tenure by cohort, Jan-2023–Mar-2025	Section 09 — Cash Conversion	**Open**
DR-5.1	Closing-date inventory schedule, including aging and reserve detail	Section 07 — Key Risks	**Open**
DR-6.1	Federal and state income tax returns, FY2022–FY2023; FY2024 extension or return	Section 09 — Cash Conversion	**Open**
DR-7.3	12 months of order-level refund/chargeback data (Shopify + Amazon), with return reason codes	Sections 03 & 03A	**Open — Critical**
DR-8.1	UK trademark application number, status, and correspondence with UKIPO	Section 07 — Key Risks	**Open**

Received prior to report issuance, unless marked Open — required in confirmatory diligence before close. DR-7.3 is Open and Critical: it must be resolved before valuation multiples are finalized. This MRL is not exhaustive; additional items may be identified as confirmatory diligence proceeds.

B Appendix B — Consolidated Findings Log

This log consolidates every matter identified over the course of the engagement — including the item-level requests in Appendix A — into a single tracked list, and is the master reference for deal-team follow-up. It reflects the status of each item as of the report date and supersedes any earlier informal tracking.

ID	ISSUE	CATEGORY	IMPACT	STATUS	NOTES / RECOMMENDED ACTION
F-01	Revolve Group contract renewal not yet executed	Revenue / Contract	**High**	**Open**	18.3% of LTM revenue; condition closing on renewal evidence or structure earnout/holdback
F-02	Deferred subscription liability ($155K) omitted from mgmt. balance sheet	Accounting	**High**	**Open**	Require GAAP restatement as a closing deliverable; bookkeeping-transition error per management
F-03	Q1 2024 trademark dispute settlement ($68K)	Legal / IP	Low	Closed	Fully resolved per outside counsel confirmation letter; no ongoing exposure
F-04	Order-level refund/chargeback data unavailable (DR-7.3)	Revenue Quality	**Medium**	**Open**	Not tracked separately in GL provided; request 12 months of detail before finalizing multiples
F-05	Founder product-dev. capitalization ($42K) proposed by management	EBITDA Adjustment	**Medium**	**Open**	Not accepted into base case (ADJ-06) — no documented capitalization policy on file
F-06	NWC peg discrepancy: management $940K vs. LS recomputed $773K	Working Capital	**High**	**Open**	$167K variance unreconciled; LS recommends peg of $735K–$810K, defined explicitly in the LOI
F-07	Related-party consulting line flagged in Q3 2024 GL (~$14K)	Related Party	Low	Dismissed	Engagement letter and invoice obtained; agreed to GL detail with no exception
F-08	Apparent duplicate Shopify orders, Nov-2024 export	Revenue	Low	Dismissed	Confirmed export/timezone artifact; reconciled to processor settlement report
F-09	Inventory reserve below stated policy (4.3% vs. 5.0%)	Accounting	Low	**Open**	~70bps gap; confirm reserves restated to policy at closing balance sheet
F-10	Founder / key-person dependency (~185K social followers)	Operational	**Medium**	**Open**	Negotiate retention agreement with post-close social-media activity covenants
F-11	UK trademark registration pending (DR-8.1)	Legal / IP	**Medium**	*Partial*	US/Canada/EU registered; UK filing status unconfirmed. Obtain UK counsel opinion pre-close
F-12	Cash tax rate unverified (25% estimate used in FCF illustration)	Tax	**Medium**	**Open**	FY2022–FY2024 returns requested (DR-6.1), not yet received. Do not rely on FCF illustration until confirmed

Of 12 logged items, 3 have been closed or dismissed following testing (F-03, F-07, F-08), 1 is partially resolved (F-11), and the remainder are open as of the report date — a position consistent with the confirmatory-diligence stage rather than a final, close-ready file. See the Executive Summary, Section 01, for the associated Limitations of Review.