LEVERAGE STRATEGIC

Quality of Earnings Report

Luminos Skin Co.

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

Luminos Skin Co. is a fictional entity created for illustrative and portfolio purposes only.

Prepared For:

Prospective Acquirer (Search Fund)

Prepared By:

Leverage Strategic

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LS-2025-047

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LTM March 2025 / FY2022–FY2024

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Final

Classification:

Confidential

01

Executive Summary · Headline 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
LS Normalized EBITDA ($'000)	817	1,361	1,658
LS Norm. EBITDA Margin %	11.1%	13.0%	15.3%

- Revenue grew from $7,366K (FY2023) to $10,461K (FY2024), with LTM revenue of $10,837K reflecting continued but moderating growth.
- LS Normalized EBITDA for the LTM period is $1,658K (15.3% margin), a $104K net adjustment to reported EBITDA after five documented normalization items.
- Overall earnings quality is assessed as moderate-to-high, with no evidence of revenue manipulation or aggressive accounting.

02

Revenue Analysis · Channel Mix

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%

- Wholesale concentration is the Company's principal risk: Revolve Group represents 18.3% of LTM revenue under a wholesale contract expiring December 2025, with no renewal yet executed.
- Amazon Marketplace (18.5%) and Shopify DTC are diversified channel aggregates serving thousands of distinct end-consumers, not single-counterparty risk.
- Growth has decelerated from ~54% YoY in early 2024 to ~16% in the most recent quarter, consistent with a maturing D2C brand.

03

EBITDA Normalization & Working Capital

- Reported EBITDA grew from $884K (FY2023, 12.0% 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).
- 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 · implying a $330K shortfall versus management's proposed peg.

04

Key Risks & 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.

05

Full Report Available on Request

- This presentation summarizes the key findings of the full 17-page Buy-Side Quality of Earnings Report (Engagement Ref. LS-2025-047).
- The full report includes detailed methodology, quarterly gross-margin bridges, customer-level concentration analysis, the complete EBITDA normalization bridge, and the consolidated findings log.

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