

FINANCIAL DUE DILIGENCE REPORT

Target: Brightwater Analytics Ltd ("Brightwater" or the "Company")

Prepared for: Castellane Holdings Ltd (the "Buyer")

Prepared by: Hollis & Marr LLP, Transaction Services — Eleanor Marr, Partner

Date: 28 February 2025

Project: Larch

Private and confidential. This report is addressed to the Buyer only and is subject to our engagement letter dated 20 January 2025. We have relied on management information in the Data Room and on discussions with Imogen Hale (CEO), Rafael Duarte (CTO) and Martin Keogh (Finance Manager). We have not audited the information.

1. Executive summary

1.1 Brightwater provides a subscription analytics platform to 41 UK mid-market customers in retail, utilities, logistics and the public sector. Annual recurring revenue ("ARR") was £5.9m at 31 December 2024 (the proposed Locked Box Date), up from £4.8m at 31 December 2023 (growth of 23%).

1.2 Normalised EBITDA for FY2024 was £1.45m (24.6% margin) after adjustments of £0.21m set out in section 3.

1.3 Net cash at the Locked Box Date was £1.2m. There is no bank debt. Working capital is seasonal because 60% of customers are invoiced annually in advance in January.

1.4 The indicative price of £18.5m in the heads of terms of 17 January 2025 represents 3.1x ARR and 12.8x normalised EBITDA.

2. Key findings

#	Finding	Impact	Recommendation
1	Customer concentration: Northgate Retail plc is £1.3m of ARR (22%). Its contract expires 30 June 2025. Management states that renewal discussions are ongoing and that it expects renewal on similar terms; we have not seen written confirmation from Northgate.	Loss of Northgate would reduce ARR to £4.6m and FY2026 EBITDA by about £0.9m.	Obtain written confirmation of renewal before signing, or negotiate a specific indemnity or price adjustment for Northgate churn, or structure part of the price as an earn-out on ARR.
2	Deferred revenue of £2.1m at the Locked Box Date relates to annual invoices raised in January 2024 and is a debt-like item in a locked-box pricing.	Price.	Treat deferred revenue as debt-like or confirm the price assumes it.
3	Capitalised development costs of £0.6m in FY2024 (FRS 102 section 18).	EBITDA presentation.	Our normalised EBITDA expenses these costs.
4	Customer churn: gross churn 7% of ARR in FY2024, including Southmere Hotels (£0.36m) which is at risk after a change of ownership.	ARR quality.	Monitor.

#	Finding	Impact	Recommendation
5	Open-source licence exposure: engineering's preliminary inventory (Data Room 5.3) lists 140 components; the licence field is blank for 31 of them. A full audit is said to be commissioned.	Potential remediation cost.	Obtain the audit before signing or take a warranty and indemnity.

3. Quality of earnings

3.1 Reported EBITDA FY2024: £1.24m. Adjustments: add back one-off recruitment fees £0.09m; add back Project Larch advisory costs £0.12m; deduct capitalised development expensed (£0.60m) and add back amortisation of previously capitalised costs £0.60m. Normalised EBITDA £1.45m.

4. Revenue and ARR

4.1 ARR bridge FY2024: opening £4.8m; new logos +£0.9m; upsell +£0.6m; churn and downsell (£0.4m); closing £5.9m.

4.2 Top ten customers represent 80% of ARR. Northgate Retail plc (£1.30m, 22%) is the only customer above 10%. Avalon Pharmacies (£0.62m), Calder Vale Water (£0.54m), Mirren Logistics Group (£0.47m) and Hadley Grocery Co-operative (£0.41m) follow. We flag the Northgate renewal as the key risk to the investment case: the master services agreement was renewed for 12 months only in July 2024, which management attributes to Northgate's procurement policy.

4.3 Two contracts were signed in Q4 2024 with go-live in 2025 (not included in ARR): Caldera Energy expansion and a public-sector pilot.

5. Net cash and debt-like items

5.1 Cash £1.35m less accrued bonuses £0.15m = net cash £1.2m. Debt-like items for consideration: deferred revenue £2.1m, accrued holiday pay £0.08m, corporation tax payable £0.11m.

6. Working capital

6.1 Average trade working capital over the last twelve months was negative £1.4m, reflecting advance invoicing. We recommend a locked-box mechanism rather than a completion accounts adjustment.

7. Employment

7.1 Headcount 48 at 31 December 2024 (engineering 21, customer success 9, sales 8, other 10). Management confirmed that no claims are pending or threatened; one informal grievance in the customer success team was described as resolved.

8. Limitations

8.1 This report does not cover legal, tax or technical due diligence, which are being carried out by Fenwick Rowe LLP, Hollis & Marr Tax and an external technical adviser respectively.

Eleanor Marr, Partner — Hollis & Marr LLP — 28 February 2025