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████████ - Ecommerce Due Diligence

Prepared on June 23, 2023, for a private sale. This report was created by the WebAcquisitions.com Ecommerce M&A team.

Disclaimer

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Basic Information

- **Business Name:** ⨯⨯⨯⨯⨯⨯⨯⨯⨯
- **Where is it listed:** Private Sale
- **Price:** N/A
- **Valuation:** N/A
- **Niche:** Supplements

Follow-Up Questions to Ask Seller

During our due diligence, we compiled a list of questions you should ask the seller before the final purchase. Most information is already here, but sometimes we discover things that need further explanation from the seller.

☐ Is there a plan to reduce COGS to improve overall contribution margins?

☐ Has the promotions/deals strategy on the website been tested in order to improve net profitability?

☐ What are the specific contracts in place for the co-branded products? Do the influencers receive a % of every unit sold?

M&A Advisor Verdicts

⨯⨯⨯⨯⨯⨯⨯⨯ has an ecommerce presence that hits all benchmarks for a well optimized store. They have differentiated themselves significantly through partnering with prominent influencers such as ⨯⨯⨯⨯⨯⨯⨯⨯ and releasing co-branded products with them. This strategy has created a significant moat around the brand in a competitive space.

As a whole, their ecommerce presence is well optimized. Facebook is primarily used for new customer acquisition with a free + shipping funnel. Once a customer purchases from the brand, we see strong LTV numbers and a strong returning customer ratio providing proof of the product quality and brand affinity.

There are significant opportunities to expand revenue through increasing influencer partnerships and driving further customer acquisition using Facebook. However, a larger impact would be had by examining the expense structure of the business.

The slim to negative EBIT margins represent a potential risk factor to the business. Testing should be done on the price points and new formulations should be developed in order to reduce COGS and improve profitability.

As a whole, ▨▨▨▨▨▨▨ has an extremely strong brand with loyal customers in a competitive space. There is work that needs to be put in on the operations side in order to improve profitability but the core brand, products, and metrics are strong.

Business Analysis Summary (Pass with warning)

While overall revenue has fluctuated significantly over the past 4 years, it has rebounded to a near high in 2022. At the same time, the diversity of sales channels has increased with Amazon accounting for 70% of sales in 2022 and the website accounting for 30%. The core issue facing ▨▨▨▨▨▨▨ though is the expense structure - leading to slim/negative EBIT margins. The large use of promotions and discounts with the website sales significantly impacts the contribution margin from that sales channel. Across the business as a whole, COGS is slightly high for the supplement industry. Price testing combined with a supplier search/new formulations should be done in order to improve gross margins. Overall, ▨▨▨▨▨▨▨ has a very strong brand and established presence but needs significant operations work in order to start to generate strong EBIT margins

Verdict: **Pass**

Online Store Overview (Pass)

▨▨▨▨▨▨▨ has a well optimized Shopify store that hits all traditional benchmarks. The primary customer journey is well thought out with only minor improvements suggested. Pre-selecting the subscription option instead of the one-time purchase option could improve subscription orders. Testing the free shipping threshold as well could also increase average order value.

Traffic to the store is well diversified and comes from a variety of sources providing no single source of failure.

Verdict: **Pass**

Organic/Influencer Overview (Pass)

▨▨▨▨▨▨▨ has a strong domain and ranks well on competitive keywords in the supplement space. However the bulk of traffic to the site comes from branded keywords. ▨▨▨▨▨▨▨ has implemented a strong influencer/ambassador program and partnered with some major bodybuilders in the space to build brand awareness. For the highest profile influencers, they have developed co-branded products. This strategy has seen massive success driving extremely strong sales and strong brand awareness in the space. With their ambassador program, ▨▨▨▨▨▨▨ has significantly differentiated

themselves from other supplement companies and created a sustainable moat around their business.

Verdict: **Pass**

Google Ads Overview (Pass)

Year to date, ▨▨▨▨▨▨ has spent nearly $40,000 on Google ads driving an estimated $457,500 in estimated sales. The bulk of this spending has been on branded keywords. There is only one campaign currently dedicated to top of funnel expansion in the ad account currently spending around $150/day. There is the potential to expand ad spend using Google Ads in order to drive further new customer acquisition and increase overall revenue.

Verdict: **Pass**

Facebook/Instagram Traffic (Pass)

Year to date, ▨▨▨▨▨▨ has spent nearly $90,000 on Facebook Ads driving just over $150,000 in sales. Their best performing funnel for new customer acquisition has been a free + shipping funnel that gives away a shaker bottle along with samples of their core products. This funnel has proven effective at acquiring new customers profitably and these customers are shown to have a comparable LTV to other customers. There is the opportunity to increase spending on this funnel in order to drive further customer acquisition and grow top line revenue. There is also the significant opportunity to optimize the Meta Ads through additional creative testing. There are multiple creative types that are not being utilized currently that could reduce the customer acquisition cost and increase ROAS.

Verdict: **Pass**

Retention Analysis (Pass)

At the core of any consumable brand is the lifetime value of each customer. ▨▨▨▨▨ boasts an extremely strong returning customer ratio of 40%. They also are capable of rapidly capturing the LTV of a customer. An average customer of ▨▨▨▨▨ purchasing through their website places an initial order worth $63. After 60 days, that customer is worth 49% more and after 1 year, that customer is worth 90% more. These numbers are strong and allow ▨▨▨▨▨▨ to invest in customer acquisition while also taking into account cash flow needs. Both returning customer rate and the strong LTV metrics gives credence to the product quality of ▨▨▨▨▨▨ and the customer affinity for the brand.

Verdict: **Pass**

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Overview

The goal of this report is to get a better knowledge of the brand ██████ and how it operates in the competitive supplements niche.

Strengths

- Extremely strong brand awareness driven by large influencer partnerships and co-branded products
- A 70/30 split between ████ and website sales provides sales channels diversity.
- Extremely strong LTV and a high % of returning customers indicates the high product quality and customer affinity for the brand.
- Strong foundation for high EBIT/high cash flow business

Weaknesses

- Website sales feature low contribution margin and do not significantly impact the net profit of the business
- Despite high margin products, there is a bloated expense structure significantly impacting profitability.
- Unprofitable throughout 2022 and trending towards unprofitability in 2023

Growth Plan

There are significant opportunities to grow this brand and optimize for profitability in the short and long-term. Here are some of our recommendations that could be beneficial for both traffic and revenue:

- Test new ad types on Facebook/Instagram to drive further performance improvements. Increase ad spend on Facebook to drive further new customer acquisition.
- Reduce the use of discounts/promotions on the website to improve profitability
- Reduce COGS/Raise prices to improve profitability.

Risk Analysis

We didn't find any major red flags during our analysis. Below, you will find a list of risk factors.

- The business has operated at slim to negative EBIT margins since 2019. It operated at a loss in 2022 and is on track for a loss in 2023 as well.
- Influencer partnerships may dissolve or the influencer may be de-platformed leading to stuck inventory and lower sales than expected

Business Analysis

The information below is based on the received P&L titled "COSIDLA_P&L_202304_with_historicals". Our experts briefly annotated the P&L with comments. However, the key points are stated below.

Revenue Analysis

Over the past 4 years, top-line revenue has fluctuated from a high of $11,342,516 in 2019 to a low of $8,600,552 in 2021. In 2022, it rebounded to a near high of $11,176,225.

It's important to note the overall trends in the top-line revenue composition. The website has gradually grown as a % of overall sales. In FY2022, it accounted for 29.4% of overall revenue - a healthy split between Amazon and the website.
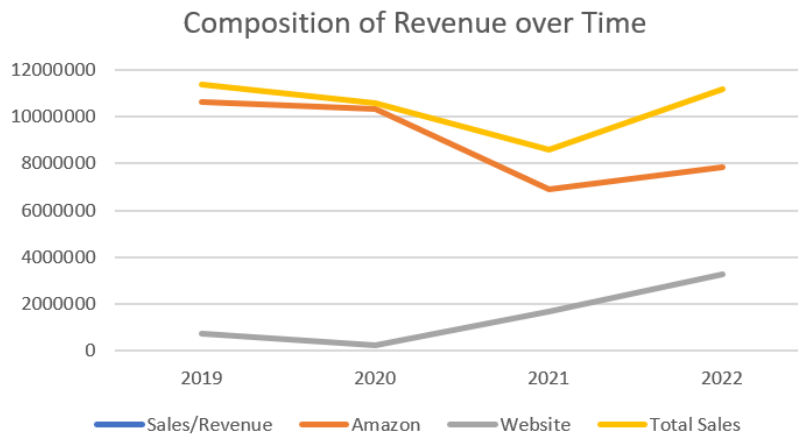
If we look at the contribution margin by sales channels however (data from Row 168,188 in the P&L), we can see that Amazon contributes the vast majority of the overall profit before fixed expenses. Thus - despite the website increasing in sales, the website has not driven growth in the bottom line of the business.

Net Contribution Margin by Sales Channel		
Source	2021	2022
Amazon	$2,127,130	$2,053,448
Website	($33,466)	$156,687
Total	$2,099,793	$2,237,069

Expenses Analysis

The core issue facing ░░░░░░░░ though is not top-line revenue but the expenses. Throughout the past 4 years, net operating margins have varied from 5.2% to -4.1%. The current expense structure is significantly impacting the bottom line of the business.

We analyzed the expense structure as a whole to see where there could be opportunities for increased efficiency. With regards to top-line, one point of interest is the drastic increase in promos/discounts on the website. With the increased website sales, the % of promos/discounts on the website has increased from 0.2-0.4% to 20.3 - 23.7% (row 96 of P&L).
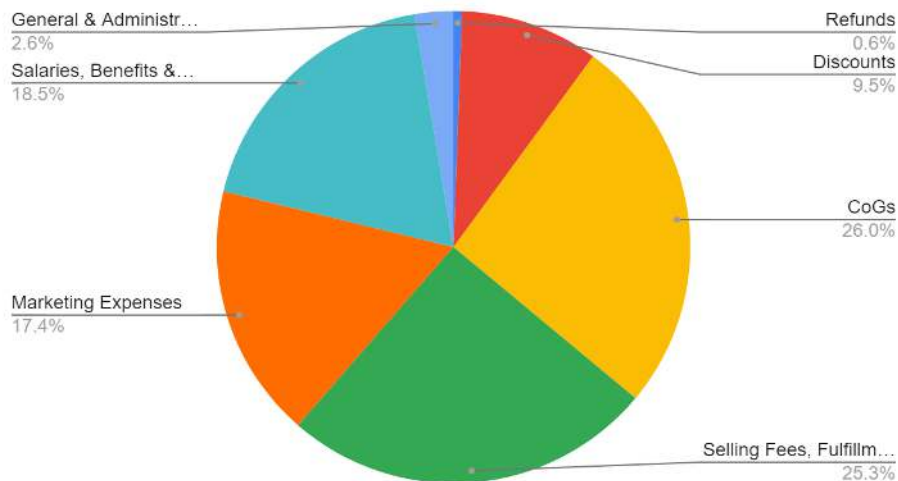
This could be impacting the contribution margin of the website sales significantly. To fix this, test raising prices on the website and reducing the use of discounts in order to increase profitability.

One big factor impacting the expense structure is the % of cost of goods sold. Supplement companies are notorious for having high product margins (80% gross is typical). In 2021/2022, ▨▨▨▨▨ had a COGS of approximately ~30%. Looking back towards their most profitable year (2019 - using EBIT as the metric), COGS was approximately 25.6%.

Reducing COGS from 30% to a more typical 20 - 25% range would bring the overall P&L to break even/slightly profitable.

Below shows a breakdown of the expense structure as a % of Total Sales (FY2022 data). In FY2022, the financials show that EBIT was -4% of Net Sales.

Expenses as % of Total Sales

- General & Administr… 2.6%
- Refunds 0.6%
- Salaries, Benefits &… 18.5%
- Discounts 9.5%
- CoGs 26.0%
- Marketing Expenses 17.4%
- Selling Fees, Fulfillm… 25.3%

Opportunity to Optimize P&L

For a business of this size in this space, a reasonable expectation for EBIT would be 10-15%. To get to that profitability level, the biggest areas of focus should be on reducing the percentage of discount orders and on reducing COGS/raising prices.

Across the rest of the expense structure, the ratios of expenses to overall revenue are relatively normal. Some brief comments on specific expenses below. References are to the provided P&L.
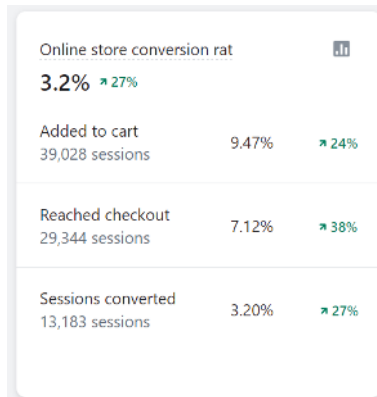
1. Row 109 - Fulfillment rates for Amazon FBA have continued to trend up year over year since 2019. I would expect this to return to normal (11-12% in 2023 (we have seen this happen in the first few months in the financials provided).
2. Row 119 - The % of advertising relative to net sales grew by 3% year over year. Reducing this back down to 15% could improve profitability.
3. Row 134 - Salaries, Benefits & Wages also grew by 4% year over year. 50% of that increase is from the increase in spend on marketing agencies. Conducting an agency search and potentially reducing that spend could increase profitability.

Overall, ▨▨▨▨▨▨ has an extremely strong brand but a bloated expense structure is impacting overall profitability. Fixing this will be key to continuing to grow the brand and overall business.

Online Store Overview

▨▨▨▨▨ is built on Shopify. Year to date, the online store has a conversion rate of 3.2% - up 27% from the same time period last year. In the last 30 days, the conversion rate is 2.88%.

As a whole, the conversion rate for the online store follows traditional benchmarks. The add to cart rate of 9.5% is close to the benchmark of 10% and it follows a slightly better than traditional dropoff rate to hit a final conversion rate of 2.88 - 3.2%.

Online store conversion rat

3.2% ↗ 27%

Added to cart 39,028 sessions	9.47%	↗ 24%
Reached checkout 29,344 sessions	7.12%	↗ 38%
Sessions converted 13,183 sessions	3.20%	↗ 27%

Over the last 30 days, 35% of all traffic went first to the homepage ▨▨▨▨▨▨▨▨▨▨▨▨▨. From there, the customer is presented with a choice to shop all supplements or take a quiz that provides a recommended supplement stack. The majority of customers click on the Shop Supplements button.

The quiz is used very infrequently with Google Analytics 4 showing 55 views out of 12,547 in the last 7 days (June 12th - June 18th).

The primary customer flow for ▨▨▨▨▨▨▨▨ currently goes

Homepage -> Collection Page -> Product Page -> Add to Cart -> Checkout

Below shows a screenshot of the typical customer journey along with commentary.

| Screenshot	Commentary
	● Homepage with announcement bar, clear CTA and strong copy illustrating brand and it's benefits
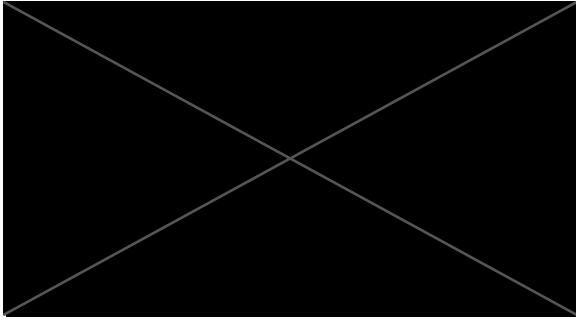
- Collection page showing selection of products
- Above the fold content not fully optimized
- No clear default sorting method for the collection page
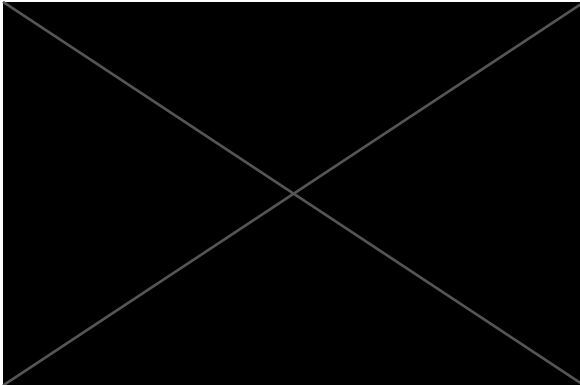
- Product page showing title, brief description, flavors
- One-time purchase is pre-selected
- Could introduce more text in product images to show more benefits above the fold (similar to Amazon-style images)
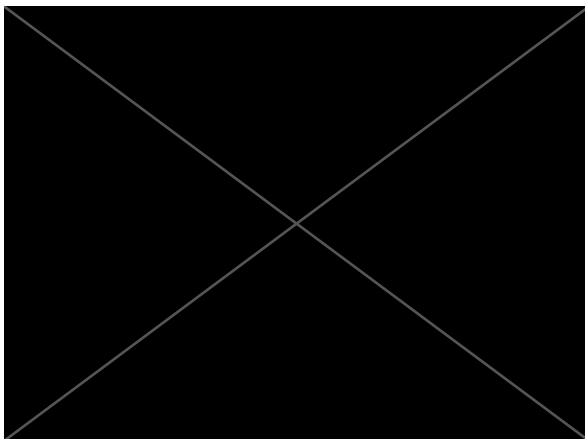
- Product Page (below fold)
- Shows frequently bought together and additional product benefits
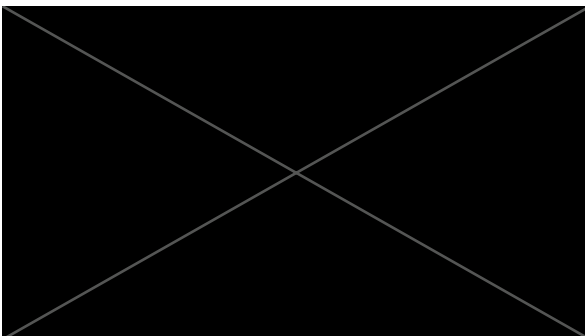
- "Drawer" style cart with free shipping threshold bar, subscription option, and additional upsell opportunity
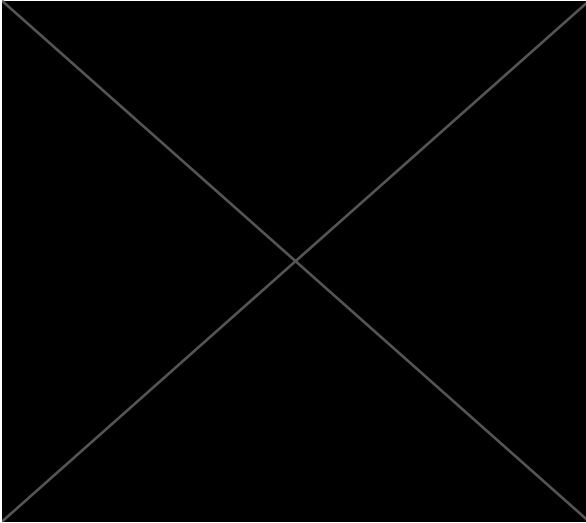
- Highly optimized checkout page with countdown timer, additional social proof, and more opportunities for upsells.
- Could be another opportunity to show the free shipping threshold - showcase the sample products and say "add X product samples to get free shipping"

The customer journey is well-optimized throughout but there are a few opportunities to improve conversion rate and increase revenue.

On the product page, the individual product selection is pre-selected. Pre-selecting the subscription option could increase subscription orders.

The current free shipping threshold of $85 should be tested to ensure it maximizes AOV. As the below image shows, the majority of orders in the last 6 months have an AOV between $41 - $66.99.
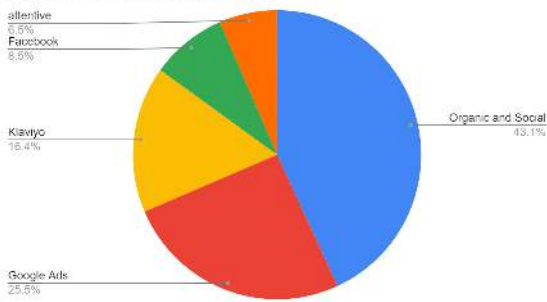
Testing a free shipping threshold of $70 - $75 could increase orders of the sample product sizes increasing future LTV by allowing new customers to test different products cheaply.
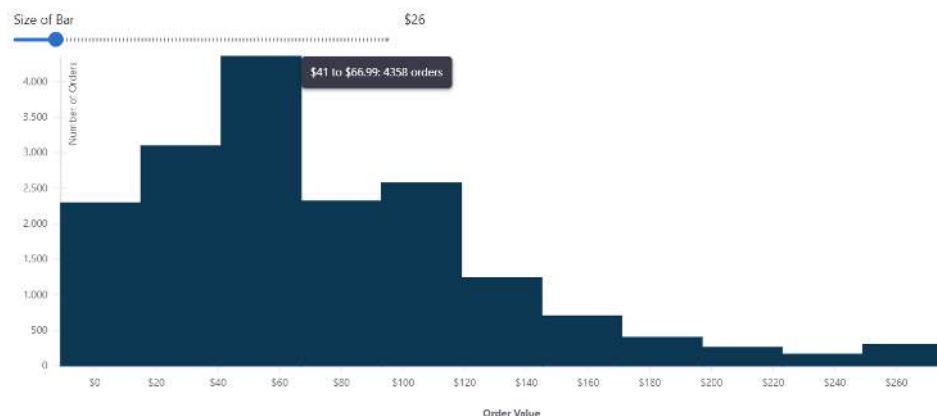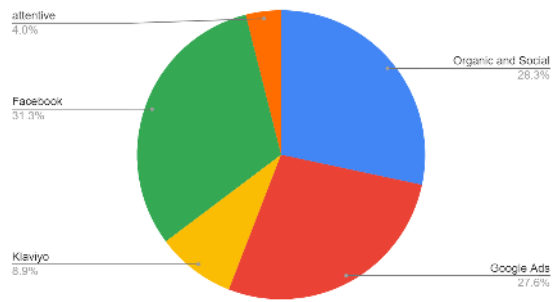

Traffic to the online store comes from a variety of sources. It's important to note that the value/session varies significantly by traffic source.

Although Facebook accounts for 31% of traffic, it only accounts for 8.5% of overall revenue. Below we analyze each traffic source in detail.

Source	$/Session	Purpose
Organic/Social	$7.58	New Customer/Retention
Google Ads	$4.60	Brand protection
Facebook	$1.36	New customer acquisition
Klaviyo	$9.22	Retention
Attentive	$8.16	Retention

Organic/Social/Influencers

From March to June, organic search has slowly increased as other channels have remained approximately constant. The domain has strong metrics and a strong SEO presence on competitive keywords such as ██████████ and ██████████
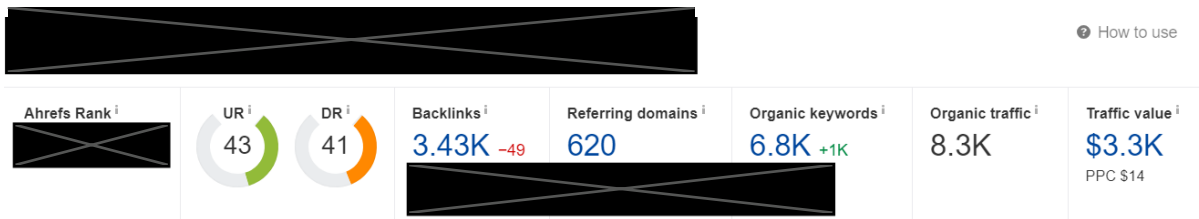
However, the bulk of the organic traffic to the site consists of people searching for the brand name. To establish a brand in the highly competitive supplements space, ██████████ has partnered with multiple prominent influencers in the space to promote their products.

For the most high profile influencers, ██████████ has launched products using the influencer's persona.

The most high profile example is ████████████████████████. On his Instagram ██████████, he posts multiple times about ██████████ and mentions the brand on his story as well. His product is the ██████████ and this co-branded

influencer product strategy has led to extremely strong sales. The ▓▓▓▓▓▓▓▓▓▓ ▓▓▓▓▓▓ is the 2nd best selling product year-to-date accounting for 13.7% of overall revenue.

Cobranding products with prominent influencers is a great way to stand out in a competitive space and it has led to large brand recognition for ▓▓▓▓▓▓▓. However, it does have its drawbacks.

In late February/March, ▓▓▓▓▓▓▓▓ released a similarly co-branded product with bodybuilder and influencer ▓▓▓▓▓▓▓▓▓▓▓▓. That product accounts for $55,838 of revenue YTD.

▓▓▓ used to have a Youtube channel titled ▓▓▓▓▓▓▓▓▓▓▓▓▓▓▓▓▓▓ and routinely averaged 40k views/video. However, near the end of April, his Youtube channel was taken down - significantly reducing his online presence/influence.

As a result, sales of that branded product have fallen from a peak of $29,000/month to $6,839 in the last 30 days.

As a whole, ▓▓▓▓▓▓▓ influencer strategy is a significant differentiator amongst a very crowded and competitive market. They have been able to distinguish themselves by partnering with high profile influencers causing a large amount of branded traffic and awareness in the bodybuilding community.

However, care must be taken when choosing influencers to ensure cash isn't heavily invested in inventory that can't be moved.

Google Ads

Year to date, ███████ has spent $39,942.11 on Google Ads driving an estimated $457,449 in conversion value (numbers from Triple Whale using Triple Attribution model).

Through the use of Fairing (a Shopify app aiding in post-purchase attribution), the bulk of conversion value comes from branded terms. Approximately 77% of overall conversion value year to date ($356,307) as reported in Triple Whale is attributed to branded terms.

The current ad account structure is simple consisting of one performance max campaign and two campaigns advertising on branded keywords.

	Status	Campaign	ROAS	ROAS	Purchases	CV	CPA	AOV	NC CPA	Spend
☐	🟢		1.12	1.86	656	$45,939.22	$37.68	$70.03	$62.74	$24,719.09
☐	🟢		6.77	3.32	194	$19,027.64	$29.57	$98.08	$88.25	$5,735.96
☐	🟢		52.07	0.21	7	$703.90	$480.03	$100.56	$3,360.22	$3,360.22
☐	⚪		0.54	4.65	158	$11,616.22	$15.81	$73.52	$59.49	$2,498.66
☐	⚪		1.62	3.15	77	$4,963.88	$20.47	$64.47	$43.79	$1,576.44
☐	⚪		1.13	1.61	21	$2,046.79	$60.53	$97.47	$127.11	$1,271.14

For the branded campaigns, in-platform (Google Ad) ROAS is expected to be in the realm of 5 - 10x. We see as-expected results there.

The Performance Max campaign is the only top of funnel campaign currently running in the Google Ads account. It has driven approximately 10% of overall revenue attributed to Google Ads so far year to date. Ad spend on this campaign has remained relatively constant at ~$150/day up until approximately May 18th. Since then, ad spend has increased $220 - $250/day.

A comparison of the two periods shows that performance has significantly decreased since the spend has increased. Of particular note, is the increase in New Customer CPA.

Although this campaign accounts for a minority of overall revenue, this increase should be investigated.

| Date Range	ROAS	Triple Whale ROAS	Purchases	CV	CPA	AOV	NC CPA	Spend
Apr19-May18	1.32	2.26	123	$9,913.41	$35.66	$80.60	$69.62	$4,386.32
May19 - Jun 18	0.89	1.55	127	$9,843.22	$50.05	$77.51	$102.53	$6,356.68

Regarding the Google Ads strategy as a whole - it is clear that the majority of the current Google Ads campaigns are for brand protection and not dedicated to expanding overall revenue. There may be an opportunity to increase Performance Max spend or set up dedicated Shopping campaigns not using Performance Max.

Overall the Google Ads strategy is effective in its intended purpose and there may be the opportunity to increase top of funnel revenue by implementing new strategies.

Facebook/Instagram Traffic

Year to date, ▨▨▨▨▨▨ has spent $87,811.73 on Facebook Ads driving an estimated $153,127 in conversion value (numbers from Triple Whale using Triple Attribution model).

One thing to note is that Facebook ad spend has increased significantly since mid-May while overall Shopify orders have remained roughly constant. This is most likely the result of increased Facebook ad spend towards the Amazon listings - however this should be confirmed.
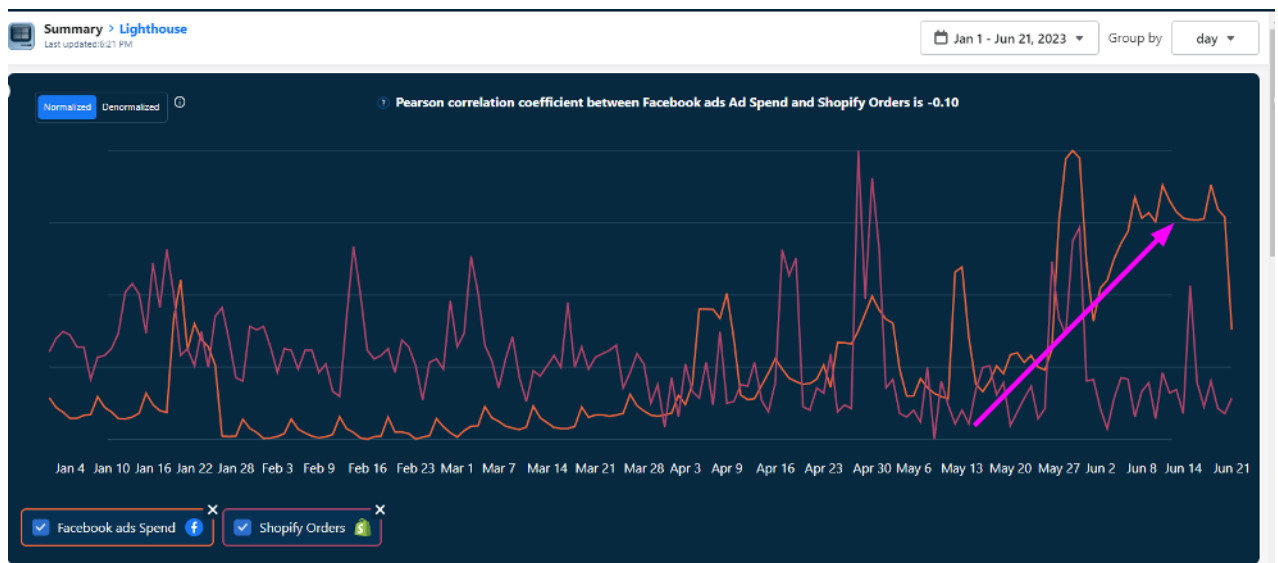
▨▨▨▨▨▨ has seen success on Facebook through advertising a ▨▨▨▨▨▨ ▨▨▨▨. Almost all of the spending in the ad account goes towards static image ads - either 3D renders or retro-inspired on brand product images. Two of the top spending ads year to date are shown below.
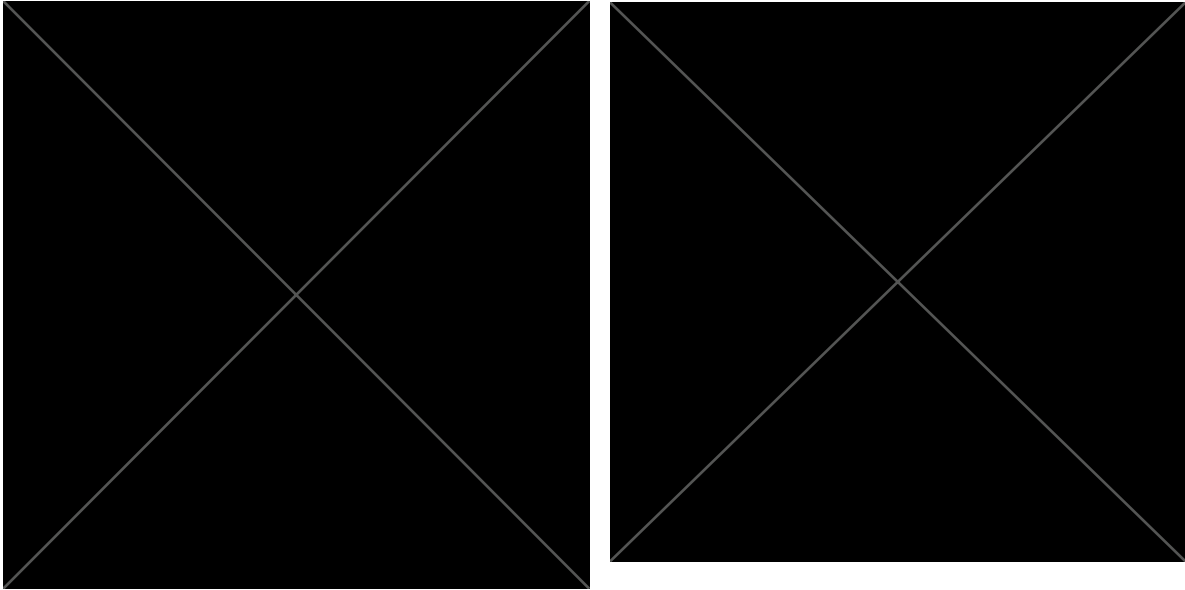
The lack of different ad formats in the Facebook Ad account represent an opportunity to expand top of funnel spending and customer acquisition efforts on Facebook. Below represents some additional ad types that could be tested:

- Slideshows
- User Generated Content
- Influencer Testimonials

With the prominent influencer team that ▓▓▓▓▓▓▓ has amassed, influencer testimonials/influencer shots may be particularly effective in increasing new customer acquisition.

The ▓▓▓▓▓▓▓▓▓▓ Facebook Ad above leads to a landing page (shown below .The landin   a e contains all of the elements of a hi hl convertin landin   a e.
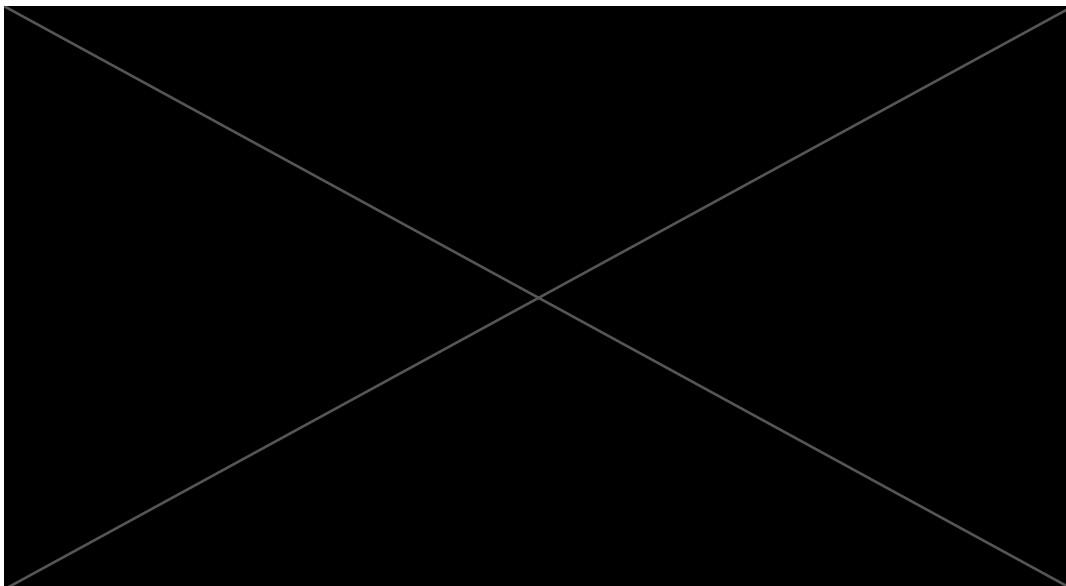
For new customer acquisition, the biggest concern is whether you can acquire new customers profitably. A secondary concern when running a free + shipping funnel is the LTV of the customers acquired using that funnel.

Shown below are the top 2 spending campaigns in Facebook YTD. We can see that the ASC campaign is not profitable as shown with a new customer CPA of $144 and an AOV of $99.

Campaign	Funnel Type	Spend	Conversion Value	AOV	NC CPA
TOF-Scaling-ASC	Product Page (XXXXX)	$23,741.43	$21,316.21	$99.15	$144.76
TOF-SSF-Scaling ABO	Free + Shipping	$18,024.15	$46,881.38	$18.08	$7.55

To determine if the free + shipping offer was profitable, we analyzed the contribution margin of the free sample units. As shown in Triple Whale, the top 3 sampler packs with the most ad spend all have positive contribution margins - indicating that XXXXXXX can acquire customers profitably.

Moving forward, more spend could be allocated to the free sampler funnel in order to continue to acquire more customers profitably.

One concern unique to a free + shipping funnel is the LTV of these customers. There is a school of thought that these customers are likely to have a lower LTV and thus be less profitable than other customers. Shown below is the LTV of customers by the first product they purchases (from Triple Whale)
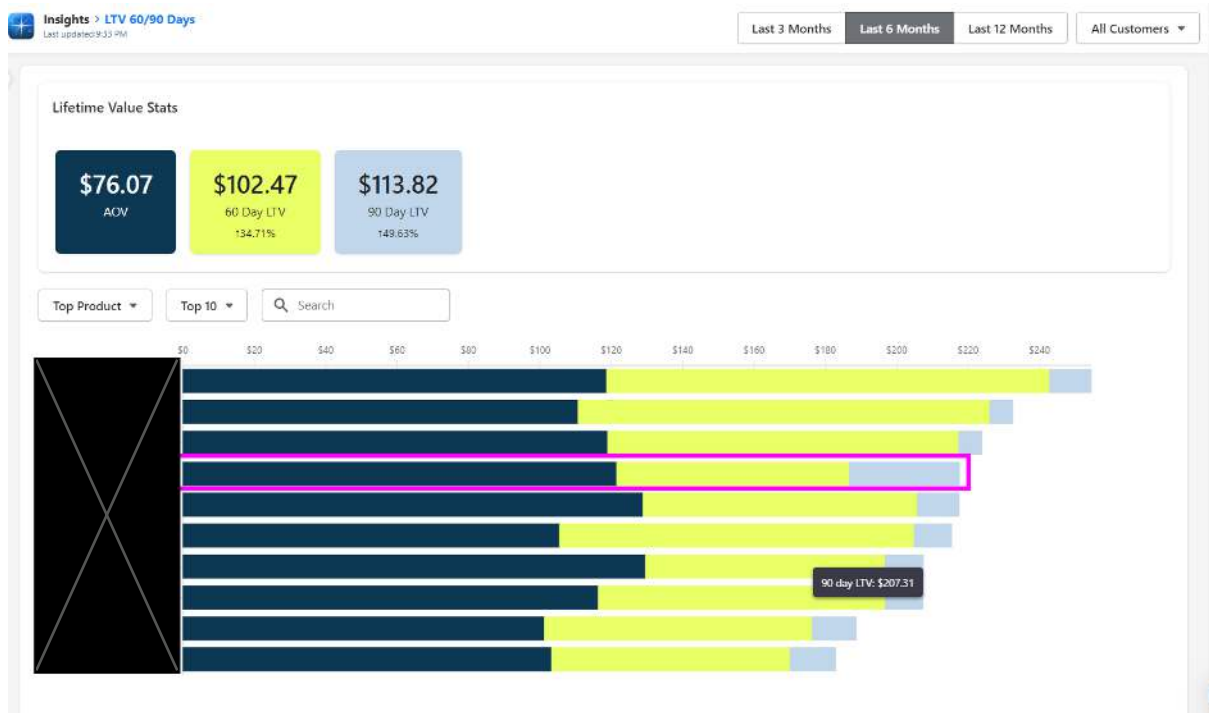
The data in the last 6 months shows a comparable LTV for the ✕✕✕✕✕✕✕ funnel as it does for other products.

Overall, ✕✕✕✕✕✕✕ has found a consistent source of acquiring new customers through a free + shipping funnel. More ad types and more ad spend could be allocated there in order to grow revenue further.

Retention Analysis

✕✕✕✕✕✕✕ uses Klaviyo and Attentive to aid in new customer acquisition and boosting lifetime value. Shown below is the breakdown of Klaviyo and Attentive attributed revenue compared to overall revenue. Combined, they account for 33.6% of overall revenue which is very strong and indicates a balance between new customer acquisition and retention.

| Campaign	Revenue	%
Overall Revenue	$1,222,600.89	
Klaviyo	$294,768	24.1%
Attentive	$116,753	9.5%

Overall their LTV is strong and hits the metrics needed to scale a consumables brand. Ideal metrics for LTV are a 30% increase in LTV within 60 days and a 100% increase in LTV within 1 year. Those numbers generally allow brands to be profitable on first purchase and take into account cash flow needs.

As can be seen below - across the last 12 months, we see 34% increase in LTV over 60 days.

If we look at cohort analysis data, we see an average first order value of $63.77. Within 60 days, the LTV is $94.91 (49%) and within 1 year, the LTV is $121.06 (89%).
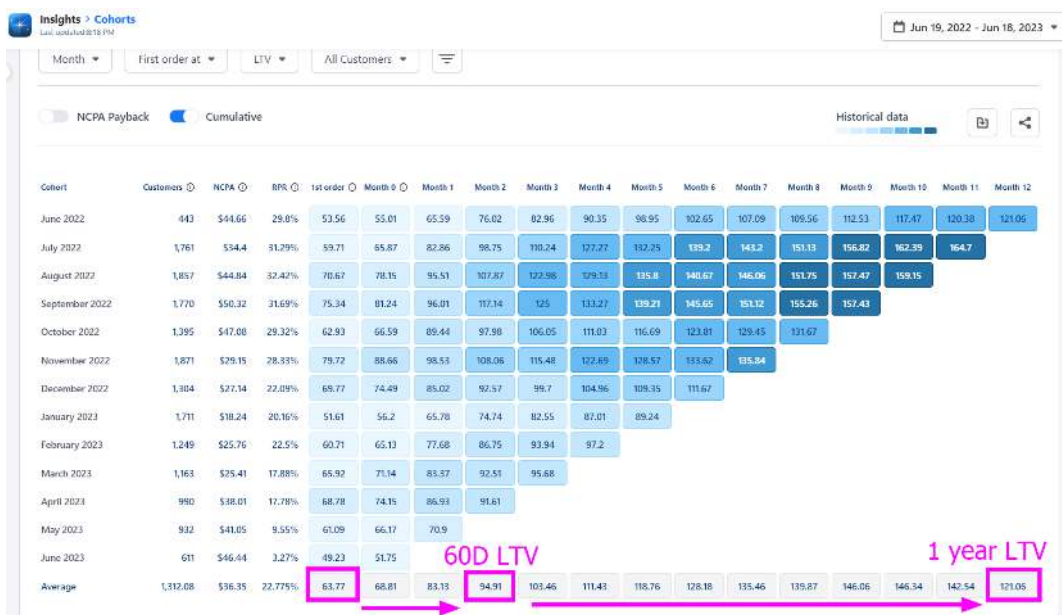
This - along with the returning customer rate of 40.2% YTD - provides confidence that customers like the product and continue to order from the brand.

Returning customer rate
40.16% ↗ 36%
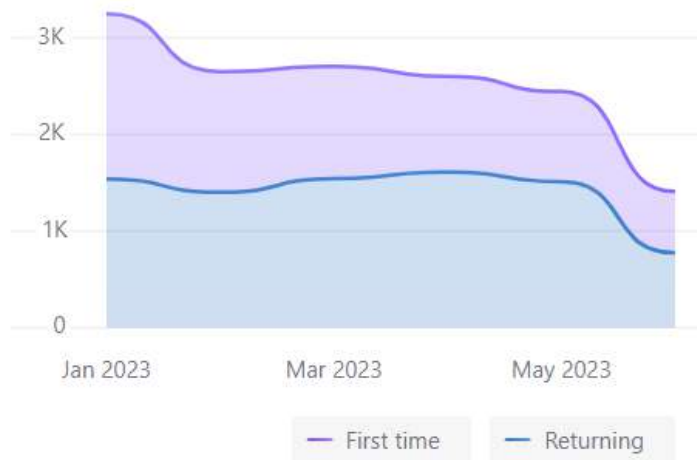
Overall, the retention rate for ▨▨▨▨▨▨ is strong and provides confidence in the products and brand moving forward.

Valuation

A typical multiple for a multi platform e-commerce business at this revenue level would be approximately 4-6x of SDE. However the P&L shows slim to negative EBIT over the past 4 years. Even if we approximate SDE as EBIT + Executive Salaries, the business generates SDE numbers in relation to overall revenue and complexity.

There is inherent value in the brand, partnerships, and revenue streams as a whole. However, a new owner would have to implement significant operational changes in order to increase net earnings. The new owner would then also receive the benefits of that new valuation.

With this scenario, it's not possible to give a clear cut valuation offer.

One option is to reformat the P&L and come up with a potential valuation if the new owner was running the business. That will provide a valuation in the ballpark and then a discount can be applied to take into account the work and time it will take to reach that new valuation.

Another option is to use a multiple based on revenue. Common revenue multiples for e-commerce companies range from 0.3 - 0.5x overall revenue.