

Red Flag Report example

Example Report prepared by
OGS Capital for Flippa.com
customers

Project ABC

Draft due diligence report



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General Overview and Remarks (1/2)

Terminology

Throughout this document, the following terminology is used:

- **Client:** The person or company who commissioned Flippa to provide a risk assessment report on the Business. The Client's name is stated on the title page.
 - **Flippa.com:** A Limited Liability Company
 - **Flippa, We:** Flippa.com as a whole or its employee(s) who were actively involved in completing the Report and carrying out the related research.
 - **Report:** This risk assessment report, completed by Flippa.com on request of the Client
 - **Business, Website, App:** The Business being analyzed by Flippa on request of the Client
 - **Seller, Business Owner:** The current owner of the Business, as advised by the Client
 - **Public Information:** Any information that is available in the public domain, including but not limited to information made available publicly on the Internet or through service providers accessible to the general public.
 - **Sale Agreement:** A document outlining the terms and conditions of the sale, which is signed by Buyer and Seller prior to sale completion.
-

Methodology

- We have used in the Report information provided by the seller to Flippa, answers received from the Seller during the call on 12th of June 2020 and publicly available information.
 - As not all analyzed aspects can be empirically verified, parts of the Report may include the subjective opinion of the Analyst, based on their own experience in the field.
-

Information and Documentation Collected by Flippa

Below is a breakdown of all documentation, information, and materials provided to Flippa.com by the Seller. All of the conclusions drawn throughout the Report are based on this information. Where references to attachments or appendices are made, these attachments or appendices are added to the Report as-is and are not changed or otherwise manipulated by Flippa.

Public Information

In order to complete our conclusion and the Report, we have analyzed the following publicly available information sources:

- Google search results for search terms related to the Business and the Seller
- Content made available by the Business
- Various publicly available tools*, such as Open Site Explorer, and others.
- Various publicly available databases*, such as the US and EU trademark databases, public databases of blacklisted email and IP addresses, and others.



General Overview and Remarks (2/2)

Information and Documentation Collected by Flippa.com

Information Provided by Seller

The following information has been provided to Flippa by the Seller:

- Access to Amazon Seller Central and Shopify accounts.
 - Partial unstructured cost data
 - List of key words used in Amazon search
-

Verification Process

- Flippa has made every effort to accurately verify the validity of any and all claims made by the Seller and/or presented by the Seller in the form of documentation or information.
- We have made the following effort to achieve the highest degree of verification
 - Accessed Amazon Seller Central and Shopify accounts of the Seller.
 - Analyzed information from Amazon and Shopify accounts against other information provided by the Seller.
 - Analyzed the information provided by the Seller and compared it to similar businesses to identify any misrepresentations.
 - Requested additional proof and materials about the Business's revenue & expenses (source documents, such as invoices, bank statements), legal entity registration documents, contracts with suppliers, confirmation of registration of product and trademark.
- Please note that the Seller has not provided us with the following requested information:
 - Management Accounts summarising sales, costs and margins.
 - Details of financials provided to Flippa (\$9.0k net profit).
 - Invoices and bank statements conforming sales and costs. Per Seller, he is using multiple personal and business accounts, therefore he was not able to provide us with bank confirmations in short period of time.
 - ABC product concept registration.
 - Confirmation that trademark patent request is submitted.
 - ABC LLC registration documents.
 - Tax returns or draft calculation of taxes for 2019.
 - Contract with previous supplier of the product.
 - List of alternative suppliers, who confirmed readiness to produce the product.



Business overview

Information about the business

- The Business operates based on FBA business model. Amazon is used as a main platform for sales, marketing and promotion. All stock is also stored by Amazon.
- The Seller has one product in the portfolio with four different colors: blue, purple, green and red. The product and "ABC" brand was developed by the Seller.
- Blue product accounts for 50% of items sold for 12 months ending 31st of May 2020. The product is mainly sold in US to 16-40 years old customers.
- All products were manufactured by Chinese supplier in May 2018. Since May 2018, 69% stock is still not sold.
- At the end of June 2020 the Seller did not have a manufacturer, previous manufacturer cannot produce products any more due to financial difficulties.

History

- 2017 – Developed the product, launched web-site and started campaign on Kickstarter.
- 2018-May 2019 – Selling via the web-site, Zulily, Touch of Modern and Stack social.
- May 2018 – 1,300 pcs of inventory bought.
- May 2019 – Start selling via Amazon.

Key figures

Asking price of

\$25k

is unreasonable due to **\$2k net loss** generated by the business for 12 months ending 31th of May 2020.

Please note that the Seller initially presented \$9.0k net annual profit on Flippa.com.

3,963 sessions and **5,774** page views on Amazon in 12 months ending 31st of May 2020.

Only **31%** of stock sold in 25 months. Approximately 6 more months needed to sell off existing stock in case of inventing in marketing and promotion activities.

4.0% conversion rate of visitors to buyers

Transaction perimeter

- Customer databases
- Domains
- Hosting accounts
- Inventory on hand or on order at the time of closing
- Relevant email accounts
- Social media accounts

Social media

- Facebook: 234 followers
- Twitter: 45 followers
- Instagram: 340 followers

Key links (removed in example)

- Web-site
- Amazon
- Facebook
- Instagram



Executive summary

Risk level

H - High **M** - Medium **L** - Low

Risk	Description	Recommendation	Risk Level
Quality of information	<ul style="list-style-type: none"> The most important information not provided by the seller includes: <ul style="list-style-type: none"> Details of financials provided to Flippa (\$9.0k net profit). Management Accounts summarizing sales, costs and margins. Seller's response regarding information not provided: <ul style="list-style-type: none"> The Seller provided to Flippa rough estimates with respect to sales, whereas he has forgotten to add inventory cost and part of Amazon fees. 	<ul style="list-style-type: none"> Obtain invoices and bank statements to confirm sales, costs and margin generated by the Business. Please see the list of most crucial not provided information, which should be obtained before the deal in „General Overview and Remarks“ section of the Report, part „Verification process“. 	H
Macroeconomic Risk	<ul style="list-style-type: none"> Available in Enhanced option of the Report 	<ul style="list-style-type: none"> Available in Enhanced option of the Report 	L
Sales & Marketing Risk	<ul style="list-style-type: none"> All sales performed via Amazon since May 2019. Based on Seller's comments, there were no marketing or promotions campaigns of the product in 2020, which means brand is significantly underinvested. We found no evidence that ABC brand bears substantial market value. The Seller believes that ABC brand is the valuable asset, therefore if the Buyer can built strong portfolio by adding new products under ABC brand. 	<ul style="list-style-type: none"> Level of required marketing costs should be considered for (i) sale of current stock and (ii) further business growth. Value of ABC brand should be carefully assessed to identify market value of the Business. 	H
Growth Risk	<ul style="list-style-type: none"> Available in Enhanced option of the Report 	<ul style="list-style-type: none"> Available in Enhanced option of the Report 	H
Social Proof Risk	<ul style="list-style-type: none"> Available in Standard and Enhanced option of the Report 	<ul style="list-style-type: none"> Available in Standard and Enhanced option of the Report 	M



Executive summary

Risk level

H - High **M** - Medium **L** - Low

Risk	Description	Recommendation	Risk Level															
Profit Margin Risk	<ul style="list-style-type: none"> For 12 months ending 31th of May 2020 the Business generated \$2k net loss vs. \$9.0k net profit initially presented by the Seller to Flippa. Please note that the Seller does not maintain Management Accounts. Estimated Profit and Loss Statement presented below was prepared by Flippa based on information available in Amazon account and cost of inventory disclosed by the Seller. <p>Estimated Profit and Loss Statement</p> <table border="1"> <thead> <tr> <th colspan="2">\$</th> <th>12m ending 30th of May 2020</th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td></td> <td>7,827</td> </tr> <tr> <td>Costs</td> <td></td> <td>(9,786)</td> </tr> <tr> <td>Net loss</td> <td></td> <td>(1,958)</td> </tr> <tr> <td>Net margin</td> <td></td> <td>-25%</td> </tr> </tbody> </table> <p>Source: Amazon.comSource: Amazon.com, Cost of inventory data provided by the Seller</p> <ul style="list-style-type: none"> Please note that Seller disclosed the following financials to Flippa: annual revenue = \$10.3k, annual net profit = \$9.0k, which significantly differs from financials available on Amazon. No detailed information was provided by the Seller to support \$9.0k net profit. According to Seller's comments, he provided to Flippa rough estimates with respect to sales, whereas he has forgotten to add inventory cost and part of Amazon fees. 	\$		12m ending 30th of May 2020	Sales		7,827	Costs		(9,786)	Net loss		(1,958)	Net margin		-25%	<ul style="list-style-type: none"> Future Operating Model should be reconsidered to improve profitability. Asking price of \$25k is unreasonable. As the Business is loss making, valuation of assets should be considered rather than valuation of the working business. 	H
\$		12m ending 30th of May 2020																
Sales		7,827																
Costs		(9,786)																
Net loss		(1,958)																
Net margin		-25%																
Traffic Risk	<ul style="list-style-type: none"> Available in Standard and Enhanced option of the Report 	<ul style="list-style-type: none"> Available in Standard and Enhanced option of the Report 	H															



Executive summary

Risk level

H - High **M** - Medium **L** - Low

Risk	Description	Recommendation	Risk Level
Supplier Risk	<ul style="list-style-type: none"> As of 23rd June 2020 the Seller did not have a supplier for products. As per Seller, the supplier who was manufacturing products previously is in financial difficulties, therefore cannot supply products. The Seller was in contact with three potential suppliers and performed production trials with one of them. Please note that we were not provided with the list of suppliers and any confirmation of successful production trials. 	<ul style="list-style-type: none"> Including product technical documentation in the deal perimeter / Sales Agreement is crucial for future Business operations. Obtain contacts of potential suppliers and confirmation of successful production trials before the deal. 	H
Inventory Risk	<ul style="list-style-type: none"> Available in Enhanced option of the Report 	<ul style="list-style-type: none"> Available in Enhanced option of the Report 	H
Tax and Legal Risk	<ul style="list-style-type: none"> Available in Standard and Enhanced option of the Report 	<ul style="list-style-type: none"> Available in Standard and Enhanced option of the Report 	H
Policy violations and Warnings	<ul style="list-style-type: none"> Amazon account contains 2 Intellectual Property Complaints and 5 Restricted Product Policy Violations, however those relates to items other than products traded by the Seller. We identified an issue with Google Merchant Account – “Account suspended due to policy violation”. The Seller has not commented on that Per Seller, there are no more violations and warnings related to the Business. 	<ul style="list-style-type: none"> Clarify with the Seller nature of the issues with Google Merchant Account. The Seller to resolve the issue with account before the deal. 	M
Assets Transfer Risk	<ul style="list-style-type: none"> Based on the information provided by the Seller, products technical documentation, patents and trademarks are not included in the deal perimeter. The Seller was not able to provide database of customers who bought his product via Amazon. Per Seller, he does not have an access to this information. Available database included in the deal includes e-mail of customers, who purchased products via ABC web-site, however (i) database is outdated as the Seller moved to Amazon from May 2019 and (ii) holds low value as there were almost no repeated sales to same customers. 	<ul style="list-style-type: none"> Products technical documentation, patents and trademarks should be included in the deal perimeter / Sales Agreement. The Seller is using the same Amazon account to sell other products, therefore ABC listing should be properly carved out and transferred to Buyer’s account. 	H



Seller Details

Communication with the Seller

- During the Due Diligence the Seller expressed the willing to cooperate, however a lot of requested information was not provided. Please refer to Executive Summary for more details with respect to information not provided.

Personal details

- Name: Toni
- Business Name: ABC
- Location: Montgomery, Allabama, USA
- Email address: ABC@gmail.com
- Phone number: Not provided to Flippa
- Government-issued ID: Passed (links deleted in example)
 - Summary
 - Key Findings
 - Face Match

Duplicated accounts

- Sift score: 48
- Location check: Passed
 - The seller's billing location & activated IP addresses pass our location check
- Duplicate accounts check:
 - We did not find any duplicate Flippa.com accounts belonging to the seller
 - We did not find any alternate billing addresses for the user
 - We did not find any other users that share the same billing address

Other key employees

- No other employees. A single person can operate the business as-is.

Competing Business Interests

- Seller does not have other business interests, which are considered competing interests.
- As per Seller his current business interest relates to sales of household products such as automatic vacuum cleaners, smart clocks etc. via Amazon.



Financial Analysis

Summary of Financials

- For 12 months ending 31st of May 2020 the Seller generated net loss of \$2.0k (25% negative net profit margin).
- Please note that financials presented below does not include CAPEX incurred by the Seller, such as: development of the product, design, development of the web-site, etc.
- Please note that Seller disclosed the following financials to Flippa: annual revenue = \$10.3k, annual net profit = \$9.0k, which significantly differs from financials available on Amazon. No detailed information was provided by the Seller to support \$9.0k net profit.

Estimated Profit and Loss Statement

\$	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	12m ending 31st of May 2020
Sales	625	1,515	794	640	553	438	1,762	448	122	127	235	568	7,827
Costs	(456)	(1,846)	(983)	(1,195)	(961)	(681)	(1,607)	(658)	(244)	(183)	(293)	(678)	(9,786)
Net loss	169	(331)	(189)	(556)	(408)	(243)	155	(210)	(122)	(56)	(57)	(110)	(1,958)
Net margin	27%	-22%	-24%	-87%	-74%	-56%	9%	-47%	-100%	-44%	-24%	-19%	-25%

Source: Amazon.com, Cost of inventory data provided by the Seller

Costs breakdown

- 47% of costs incurred for 12 months ending 31st of May 2020 related to Amazon fees.
- In May 2020 the Seller started selling new products, therefore to promote sales of new product the Seller increased advertising costs.

Cost by type

\$	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	12m ending 31st of May 2020	Cost structure (%)
Cost of goods sold	(243)	(551)	(259)	(259)	(178)	(130)	(454)	(113)	(32)	(32)	(81)	(259)	(2,592)	26.5%
Amazon fees	(213)	(785)	(354)	(584)	(491)	(360)	(679)	(414)	(159)	(128)	(180)	(268)	(4,615)	47.2%
Cost of Advertising*	-	(206)	(175)	(169)	(200)	(127)	(350)	(7)	(16)	(23)	(24)	(94)	(1,390)	14.2%
Product charges	-	(244)	(127)	(178)	-	(49)	(89)	(118)	-	-	-	-	(805)	8.2%
Promo rebates	-	(54)	(66)	(6)	(92)	(7)	(30)	-	-	-	(7)	(15)	(277)	2.8%
Other	-	(6)	(3)	-	-	(8)	(6)	(5)	(36)	-	-	(43)	(107)	1.1%
Total costs	(456)	(1,846)	(983)	(1,195)	(961)	(681)	(1,607)	(658)	(244)	(183)	(293)	(678)	(9,786)	100.0%

Source: Amazon.com, Cost of inventory data provided by the Seller

Documentation provided

- Please note that the Seller does not maintain Management Accounts.
- Estimated Profit and Loss Statement presented to the left was prepared by Flippa based on information available in Amazon account and cost of inventory disclosed by the Seller.

Expenses Verification

- Cost breakdown is based on the data from Amazon account and cost of inventory provided by the Seller.
- Please note that we have not verified completeness and accuracy of data provided.



Traffic Analysis

Amazon

Traffic Summary – Amazon

- Per Seller, over 90% of the traffic is from Amazon searches as he is not promoting the web-site, Facebook and Instagram accounts. He also does not use Google Ads.

Amazon traffic (June 2019 - May 2020)

Color	Sessions	Session Percentage	Page Views	Page Views Percentage	Buy Box Percentage	Units Ordered	Unit Session Percentage - B2B
Blue	1,519	14.4%	2,425	14.7%	98.0%	80	5.3%
Red	334	3.2%	409	2.5%	96.0%	9	2.7%
Green	1,045	9.9%	1,507	9.1%	98.0%	31	3.0%
Purple	1,065	10.1%	1,433	8.7%	98.0%	40	3.8%
Total	3,963		5,774			160	

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Traffic Analysis

ABC web-site

Overview

Ahrefs Rank ⁱ

17,300,918

UR ⁱ

16

DR ⁱ

10

Backlinks ⁱ

80

Recent 92
Historical 186

Referring domains ⁱ

16

Recent 17
Historical 38

Organic keywords ⁱ

57

PPC 0

Organic traffic ⁱ

110

Traffic value ⁱ

\$55

PPC \$0

Organic Traffic

All countries ▾

Organic traffic ⁱ 110 /month

All time | One year | Last 30 days



Organic keywords ⁱ 57

Country	Keywor...	Traffic
All count...	57	110
United S...	26	46 42%
Canada	7	19 17.4%
United K...	4	14 12.9%
Australia	5	11 10.5%
India	7	10 9.3%
Germany	3	5 4.6%
Netherla...	2	3 2.9%
Philippines	1	<1 <1%
France	1	<1 <1%
Malaysia	1	<1 <1%
Mexico	0	<1



Pricing

Pricing Analysis

- The Seller's asking price is \$25,000.
- Over 12 months ending 31st of May 2020 the Business generated \$1,958 net loss. Per information initially presented by the Seller on Flippa the Business generated net annual profit of \$8,952. Please refer to Financial Analysis section of the Report for more details.
- Please note that no detailed information was provided by the Seller to support \$8,952 annual net profit.
- To estimate an optimal offer price, we take into consideration a blend of factors. We then compare this data to sites of similar character, and perform this analysis on data over the past 12 months.
- Comparable Sales
 - The average multiple for similar FBA businesses over the past 12 months is between 2.1x – 3.0x annual net profit.
 - **Based on recent comparable sold FBA businesses, the Seller's asking price is unreasonable.**

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