Sample brand C: worth a closer look, at the right price

Red Flag Screen · from the seller's data room · prepared for the buyer's deal team only

Recommendation

Go, with conditions.

Don't pay for the growth story. Pay for what's there, fund the first months of a plan, and make the price depend on what diligence confirms.

1. What the deck says, and what the data says

Measure	Seller's deck	From the data	
Sales, last 12 months	$9.5M	$9.5M	Agrees
Customer value against cost	3.6x	0.56x	Revenue LTV vs contribution; every new customer loses money
Cost of a new customer	$45.44	$71.27	Platform-attributed vs store-counted
EBITDA, last 12 months	not shown	-$1.12M	The deck leads with growth; losses grew as spend grew
Cash	–	$206K	At this rate, it runs out in about seven months

2. Red flags, and their effect on price

Red flag	Effect on price or structure
Growth is bought: 26% off the first order, and the first order loses $45 after acquisition	Value the brand on what's there, not on the growth rate
Seven months of cash at the current burn	Fund the first months of the plan inside the deal; avoid an earn-out tied to growth
Products that lose money after ads: about $795K a year	A fix after close, not a reason to walk; confirm the product list in diligence

Red flag	Effect on price or structure
Retargeting and brand-term spend: about $228K a year	Same: a fix, worth confirming with a holdout test

3. Is it fixable?

Probably, with a different model. Cuts alone stop the losses but shrink the business. A first order that pays back (a bundle in place of the discount), fewer discounts and a replenishment programme would make it profitable, if they test as modelled.

Future	Indicative value at month 36
Do nothing	−$3.7M
Cuts only	$0.4M
Cuts, then the new model	$4.9M

Indicative values with placeholder multiples, to be set from current market data for the deal. Confidence in the fix: medium, until the new offer is tested.

4. What to pay for

About $1.2M of stock and cash, less debt: the asset floor. Anything above it is paying the seller for value the buyer would have to create. Hold back part of the price against inventory that diligence can't confirm as saleable.

5. Questions diligence must answer

- How much of the inventory sells at full price within six months?
- Supplier terms and minimums: can product cost fall two points?
- Who owns the ad accounts, and what does the agency contract cost to exit?
- Do newer customers come back less often than older ones? By how much?
- Would a bundled first order convert? A small priced test before signing answers it.

Sample brand C is fictional. This sample shows the format of a Reeve Red Flag Screen memo; a real memo is written from the seller's data within five business days and goes to the buyer only.