WebAcquisition

▨▨▨▨ YouTube Channel
Due Diligence Report

▨▨▨▨▨▨▨▨▨ for an Empire Flippers ▨▨. Created by the
WebAcquisition.com M&A team.

Disclaimer

Important: The attached report was prepared solely for informational purposes in connection with the potential acquisition of the business it describes, and should not form the basis of, or be relied on in connection with, any investment decision or any contract or commitment whatsoever with respect to a proposed acquisition, or otherwise.

Basic Information

- **URL:** ▨▨▨▨
- **Where is it listed:** ▨▨▨▨▨▨▨
- **Purchase Terms:** See the Valuation section
- **Listed Terms:** $281,188, 30X multiple, 12-month pricing period
- **Niche:** Information, Entertainment, Technology
- **Relevant documents:** ▨▨▨▨▨▨▨
- **List of assets:**
  - YouTube Channel
  - Content management CRM
  - SOPs
  - Full Team (scriptwriter, voice artist, video editor, thumbnail artist)

Follow-Up Questions to Ask Seller

> During our investigation, we compiled a list of questions that you should ask the seller before the final purchase.

- ☐ Why did revenues dip from January 2024 onwards? April 1st to April 15th, 2024 is showing $2,508 which will be lower than March 2024 when April fully ends.
- ☐ Why did the seller reduce the number of videos published in every month in 2024 versus previous months in 2023?
- ☐ The videos published in April 2024 resulted in 30,554 views so far. None of the videos published in April have contributed to the major revenue. How much of this YouTube channel is based on the virality (luck) of getting the right video published at the right time?
- ☐ In our analysis, we've found due to the "news-like" videos being published, videos have a shelf-life of 30 days on average. After 30 days, the videos dwindle in views and a new video with more up-to-date news takes its place. How do you pick news topics as that seems to be the key to ensuring continued growth?
- ☐ What's the cost breakdown for the people involved in the business (*i.e.,* scriptwriter, voice artist, video editor, thumbnail artist)?
- ☐ What software is needed to create videos? No subscription costs were included in the P&L.

WebAcquisition Team Verdicts

Business Analysis

> ▨▨▨▨ is a YouTube channel business in the news, information, and technology niches. The business model is simple: generate video content that is monetized by YouTube ads.

The business has over 650 videos published since December 2021. The channel has 150K subscribers and receives on average 1M+ views/month with an RPM of around $4.

The channel has had excellent traction all through 2023. Recent months have seen a dip in videos uploaded and revenue generated.

The business is simple to run: utilize the team of 4 people to generate videos, optimize thumbnail and titles to be catchy, and publish.

However, the major problems (discussed in detail below) are the low barrier to entry, and the fact that each video has a shelf-life of no more than 30-45 days. There is no equity value in the historical library of videos (they get no views practically).

There is no verdict to this section. This is our personal opinion.

P&L Summary (Warning)

The L6M, L9M, and L12M revenues have been fairly stable at above the $10,000+ range.

However, in recent months performance has dipped.

In all of 2023, the revenues have been above $10,000+ per month. Whereas, 2024 has had the lowest months (January and March).

Due to the channel structure, the revenue dip could be due to the seller not publishing as many videos in Q4 2023 to Q1 2024.

As for costs, there are no red flags but further clarification is needed on the personnel breakdown and any software subscription fees.

Verdict: Warning

Channel Summary (Pass)

We reviewed the major KPIs for YouTube channels (*i.e.,* RPMs, geography, watch time, viewer age). All KPIs are healthy for the business.

Verdict: pass

Video Analysis Summary (Warning)

We analyze the trends of the video library from last 30 days, preceding 30 days and lifetime. The goal was to understand how are videos performing, how many videos need to be published, and what is the "shelf-life" of a video in this channel.

Due to the nature of the channel, the channel depends on news virality. Therefore, past videos do not have a recurring value. The shelf life of videos is less than 30 days in some cases.

This is just for knowledge purposes. This does not mean the business as a whole is poor. It is just the structure of the channel.

Verdict: Warning

Overview

Strengths

- Easy to produce content with the expert 4 person team in place.
- Team costs are less than 20% of revenues therefore mass production of videos is possible at low costs
- Good subscriber based on the channel for repeat viewers
- RPMs are steady across the board at $4

Weaknesses

- Easy to replicate - anyone can copy this channel. ▨▨▨▨ videos are not proprietary or unique
- No recurring component of video library - old videos do not get much views. New videos have a shelf life until the "news" is not trendy anymore
- No other revenue sources apart from YouTube ads (no scope to add other revenue sources due to niches)

Growth Plan

- Target evergreen keywords in YouTube search. Use the same team to develop content that is related to history ▨▨▨▨▨▨▨▨▨▨ technology ▨▨ ▨▨▨▨
- Increase video products - currently less than 25 videos/mo are being published. Boost to 50+ videos per month for a few months to check if growth happens.

Risk Analysis

- Competitors can copy. ▨▨▨▨▨ are easy to replicate. Content isn't revolutionary/unique so copying is even easier.
- YouTube demonetizes top videos due to content type (some videos are very clickbaity); this could reduce revenues drastically in a month because usually one to three videos max bring in 80% of traffic/revenues.

Business Analysis

Business Model Breakdown

The niche of this channel varies from technology, information, and news. There have been 621 videos published since Dec 2021. The business generates revenue from a single source: YouTube ads.

On the YouTube platform, there are various models. This one in particular is known as a "faceless" channel. In other words, there is no face or personality behind the channel. The subscribers and viewers are here for the individual video only, not following the people behind the channel. This means there is minimal to no brand loyalty.

Analyzing the channel, we see that the seller has chosen a niche of "clickbait news". Specifically, tying in some sort of news, sensationalizing the thumbnail and title, and sharing info in the video.

The pros of this are:

- Constant ideas for videos - there is always news that can be covered hence the ability to publish 25+ videos per month on average
- Easy to create videos - videos do not require domain expertise. They videos rehashing news articles.

The business model is simple: **create videos based on trending news → quickly create the videos → upload & publish → wait for traffic**.

Channel Breakdown

- **Created:** December 2021
- **First Pageview:** January 16, 2022
- **Trademark lookup:** According to the trademark electronic search system ▨▨▨, there is no active trademark registration.
- **Number of videos:** 621 videos (169 in 2022, 354 in 2023, 75 in 2024 to date)
- **Avg. videos published per month (2023 to 2024 to date):** 25
- **Avg videos published YTD:** 25
- **Current subscribers:** 149,364 (+1,941 last 28 days)
- **Views (last 28 days):** 1.3M (avg 12 mo is 2.51M)
- **Average view duration (last 28 days):** 4:15 mins (avg 12 mo is 3:33 mins)

The YouTube algorithm rewards a few factors: consistency in videos published, watch time, subscriber growth, and new vs returning viewers. Of course, the algorithm has 100s of other parameters but these have the highest "weight" in the algorithm.

The Seller has done an excellent job consistently publishing videos with 25 on average videos per month with some months hitting 40 videos. The watch time has increased from 3:33 mins to 4:15 mins, ⊠ which is good.

P&L Analysis

Average Revenue Analysis

	YouTube Ads
Last 1 Month (L1M)	$6,811
Last 3 Months (L3M)	$7,779
Last 6 Months (L6M)	$10,553
Last 9 Months (L9M)	$10,370
Last 12 Months (L12M)	$10,674

As can be seen from the table, the average revenues have been calculated. L6M, L9M, and L12M have been fairly stable at above the $10,000+ range.

However, in recent months performance has dipped.

In all of 2023, the revenues have been above $10,000+ per month. Whereas, 2024 has had the lowest months (January and March).

Verdict: the revenue numbers indicate a downtrending business that needs to be factored into valuation.

Cost Analysis

Here are the takeaways from analyzing costs:

- P&L does not show any software subscription fees. Videos require editing, images, etc. Therefore, there are many tools involved. More clarity is needed on where the subscription fees are covered.
- From the P&L, it is not clear what the hourly rates or fixed rates are for each individual person involved. More clarity is needed on the numbers.

- What does the general expenses category include?

> The costs are roughly 21% of the gross revenues (using 2023 numbers), or about $35K.
>
> This is significant and thus further breakdown is needed.
>
> YouTube has a somewhat "delayed response". For example, creating a video today does not mean revenue today. This is unlike paid advertising where ROI can be seen rather quickly.
>
> Therefore, it's important to understand the cost structure because costs are incurred today, and revenue is collected later.
>
> **Verdict:** there are no red flags from the cost that indicates a poor business. However, clarity is needed on the numbers.

Channel Analytics

We break down the key performance indicators (KPIs) for YouTube channels below.

RPMs

Revenue Per Mille (RPM) is a metric that represents how much money you've earned per 1,000 video views ([source](#)).

From a business perspective, the channel gets an RPM that is set by YouTube depending on the location of your traffic, number of hours watched, consistency of videos, niche, and types of videos, time of the year, among many other factors.

Below is an RPM breakdown for each month of each year side-by-side for comparison:

	2022	2023	2024
January	3.6	5.5	3.0
February	3.5	5.8	3.8
March	3.4	4.1	4.3
April	2.8	4.2	
May	3.2	4.4	
June	4.7	4.1	
July	6.5	4.8	
August	5.5	10.7	
September	7.4	4.6	

October	6.8	3.3	
November	8.2	3.7	
December	6.5	3.3	
Yearly Averages	**5.2**	**4.9**	**2.7**

The average lifetime RPM is $4.8. The last 12 months average RPM is $4.5. While there was a slight dip in RPMs, it is not significant enough to be worrying.

The highest RPMs are in YMYL niches; essential niches related to business, finance, law, legal, health, etc. Niches like information, news, and such are the lower RPM niches.

Overall, RPMs look healthy. There is no notable pattern or downtrend. The niche has had stable RPMs for over 2 years now.

Verdict: no red flags

Watch Time

Watch time is an important YouTube metric that dictates RPMs. The watch is shown below for lifetime of the business.

Overall, watch time is steady. No large dips or peaks. The last 6 months have seen a slight increase in watch time which is good.

Verdict: no red flags

Geography

Here are the total views and percent breakdown for the lifetime of the business (see ▨▨▨):

	Views (millions)	% of Total
United States	34.6M	54.6%
Canada	4.6M	7.3%
United Kingdom	3.1M	4.9%
Australia	2.4M	3.8%
Philippines	2.3M	3.6%
India	2.2M	3.5%

The geographical breakdown shows the United States has the majority of the views. Coincidentally, the USA has the highest RPMs as advertisers are willing to pay more to tap into the US audience.

To analyze the USA traffic further and see if it is consistent, over the last 90 days USA traffic was 62%, and over the last 30 days, it was 73%. Therefore, USA traffic has increased over the average percentage.

Verdict: no red flags

Viewer Age

Another important metric is viewer age. In general, younger age groups get fewer RPMs as they have less purchasing power; advertisers cannot make money. The older populations have more purchasing power hence higher RPMs.

Here is the viewer age analysis:
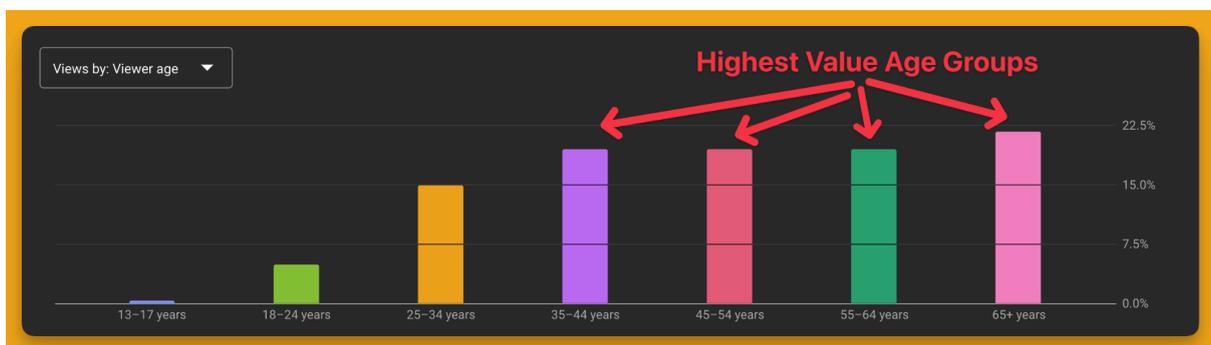
Approximately, 94.9% of the traffic is from 25+ year olds. This is excellent as this is the audience that has money to spend.

> The highest-value age group is being targeted by this channel.
>
> **Verdict:** no red flags

Traffic

YouTube has various sources of traffic. Below is a breakdown of the last 12 months traffic:

|	Views (millions)	% of Total
Browse Features	19M	63%
Suggested videos	5.57M	18%
External	2.4M	8%
YouTube search	2.36M	8%
Direct or unknown	361K	1%
Other YouTube features	208K	0.7%

"Browse features" and "suggested videos" are essentially videos that show up on a person's homepage/feed or after videos they've already watched; this is based on the viewer's past interests.

The most valuable are External (a website that embeds your video, or organic Google search) and YouTube Search (people searching for keywords and finding your video). These are what we call, organic search.

> Verdict: no red flags

Video Content Analysis

Here is a snapshot of the number of videos published over time:
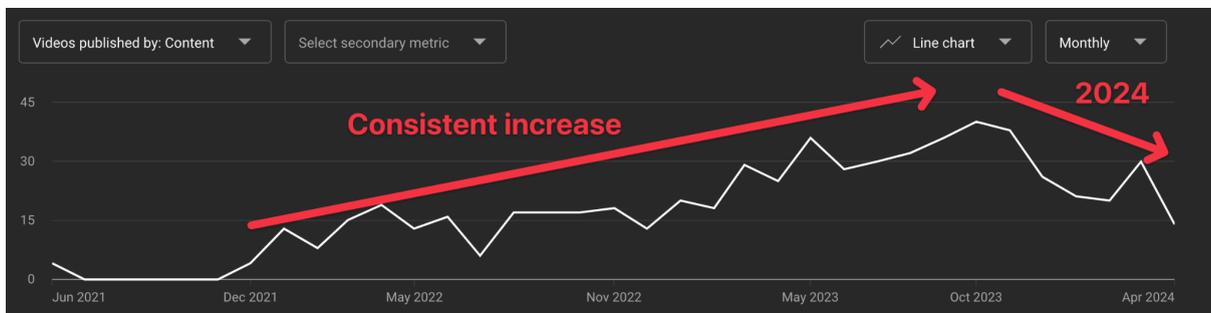
There has been a consistent increase in videos published month over month until after October 2023 when there seems to be a drop in published videos. This is the owner's lack of "interest" in running the business. This has also resulted in a drop in revenues.

In general, for this type of channel, there is a strong correlation between videos published → increase views → increased revenues. We will see this in action below.

Before we begin analyzing video content metrics, the two tables show the top 5 videos and their metrics for the last 28 days (Mar 19 to Apr 15) versus the 28 days before that (Feb 20 to Mar 18). This will give us data to analyze.

Source of this report is ████.

Here is last 28 days video report (March 19 to April 15):

Video	Publish Date	Views	Revenue
██████████████████████	03/31/24	567K	$2,860
████████████	03/18/24	176K	$757
████████████████	03/22/24	141K	$700
██████	03/17/24	127K	$587
████████████	03/25/24	111K	$236

Here are the last 30 days preceding (Feb 20 to Mar 18):

Video	Publish Date	Views	Revenue
████████████████████	02/05/24	1.0M	$3,789
██████████████████	03/18/24	222K	$969
████████████	02/21/24	201K	$715
████████████	02/19/24	97K	$481
████████████████	03/10/24	46K	$163

Non-Recurring Traffic to Videos

Unlike most media businesses where one-time investment is done into content and traffic flows in for many months and sometimes years ahead, this is NOT the case with this specific YouTube channel.

See the tables above.

Every 30 days there is a "shift" in which videos bring in content. Since this is primarily acting as a "real-time news commentary" channel now, outdated videos (old news) do not get views that increase revenues.

This means that the new owner needs to always publish videos. Past video library of 650+ videos does not have any "recurring" value to the business.

This is primarily because (1) the type of content tied to news has daily changes (what was news a week is no longer relevant), and (2) the seller has never attempted to target keywords through YouTube SEO.

Channel is dependent on virality

Most value comes from taking advantage of organic YouTube traffic (*i.e.,* people search keywords and find your video organically).

With this channel, it's mostly virality. For example, looking at the tables above, there is one video in every 30-day period that takes off (500K+ views for the top video).

The biggest risk here is that it's very hard to know what will go viral. As an owner of the business, you must follow trends, publish as many videos as possible, and hope they take off. It's more of an "art" than science.

> At a high level, the above aspects are not red flags to the business. It is just the specific nature of the YouTube channel that the seller chose to build.
>
> However, as a new owner, there must be an understanding this channel has a strong correlation:
>
> New videos → increased views → increased revenues
>
> Past performance is NOT indicative of future performance. The old media library built up is not an asset to the business.
>
> Overall, there are no red flags here. Videos get healthy views, good watch time, and there have been consistent video uploads (which correlates to revenue increase).
>
> **Verdict:** no red flags

Workload and Investment Projections

Being a YouTube channel, the future workload and investments will be higher than a traditional media business (*i.e.,* content site)

From our cost P&L analysis, ~20% has been the cost of goods sold (CoGS) to operate the business. For every $100 earned, there will be roughly $20 in costs.

The seller will be providing access to the following individuals:

1. Script Writer
2. Voice Artist
3. Video Editor
4. Thumbnail Artist

Two roles are missing here that the new owner needs to take on OR hire for:

- **Operations Manager** - this person is in charge of managing the workflow, deadlines, etc of the four people above to ensure consistent video production.
- **Ideation** - someone needs to find new ideas for videos by following news trends

The new owner can fulfill these two positions as it's more management as opposed to repetitive work in the business.

As for investments, through this analysis, we've pointed out that more videos lead to more revenues. Therefore, there should be an influx of new videos published on the channel after the takeover. Ideally 50-75 videos per month to get the revenues back up to 2023 levels ($10,000+).

Valuation & Deal Structure

This listing is originally listed by Empire Flippers at $281,188 at a 30X multiple using the last 12 months profit average of $9,496/mo.

The seller is willing to take an offer of $250,000.

However, in our opinion, this is over priced due to the following reasons:

- Last 3 months revenues are significantly lower than the $9,496/mo 12-mo average
- The old video library has no future value
- Defensibility is low - there are many competitors already on YouTube and more will come up over time

With that said, we believe the multiple of 30X is very fair for the business. The only issue is the trailing 12 months being used which account for the high $10K+ months in 2023.

Here are two structures.

Ideal Structure:

- **Valuation:** $142,620 (L3M average profit of $4,754 at a 30X multiple)
- 70% upfront cash ($99,834)
- 30% lumpsum after 12 months ($42,786)

Future Performance Structure

This can be done IF the seller is adamant on $250,000 price point.

- **Valuation:** $250,000 (or a bit lower, say $225,000 after negotiations)
- 60% cash upfront ($150,000)
- 40% paid out lumpsum after 12-months if and only if the trailing 12 months revenues are 80% of 2023 revenue totals

By doing the performance structure, you are liable for the $150,00 similar to the first structure and you will pay out the additional $100,000 if the business performs at least 80% as 2023. You can use the cashflows from the 12-mo of operations to pay towards the lumpsum.

This protects you in case the business underperforms.