BAIRD

Global Investment Banking

The Bottom Line

A TECH & SERVICES INDUSTRY UPDATE FROM BAIRD

July 2020

In This Report

Baird Global Investment Banking is pleased to share our new Global Technology & Services update. In this inaugural edition, one of our senior bankers shares his insights into the marketing technology landscape. We also spotlight a company taking a unique approach to servicing the Amazon ecosystem.

Connecting with Eric Winn

ERIC WINN
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Eric Winn joined Baird in 2018 and is a Managing Director in the Technology & Services Group with a focus on Internet, E-Commerce & Marketing Technology. In his career, Eric has worked with range of technology clients in the e-commerce, online marketplace, advertising and marketing technology, vertical software and e-commerce enabling technology sectors, and brings a diversity of mergers & acquisitions as well as private and public capital markets experience.

Eric joined Baird from Pacific Crest Securities, the technology division of KeyBanc Capital Markets. Prior to PacCrest, he worked in the technology investment banking groups at Bear Stearns; Friedman, Billings, Ramsey; and Citigroup.

We recently sat down with Eric and talked about trends and deal activity he's seeing in his universe of coverage, particularly within marketing technology.

Your practice covers a wide range of service providers. How do you define your universe of coverage?

We define it as Internet, E-Commerce & Marketing Technology. Internet obviously encompasses many different sectors, although I am most focused on two: direct-to-consumer (DTC) brands and online retail, and online marketplaces. These businesses can be both B2C and/or B2B and are primarily transactional business models. The software element of my coverage focuses on e-commerce & marketing technology, which is divided into a large number of different sub-sectors – these businesses can have multiple business models ranging from pure recurring revenue software, hybrid software/transactional or pure transactional. What brings these areas together is how, for the most part, they are focused on online commerce and marketing.

Marketing technology is an important sector for Baird. Marketing is mission critical and one of the cornerstones of business management and commerce. Every company must appropriately engage their customers to grow, and as a result, companies spend hundreds of billions of dollars annually on third-party technology and services to define and execute their marketing strategies. Marketing is a term that means different things to different people, but we focus our coverage on marketing technology and services that are utilized to identify, attract, engage, convert and retain customers.

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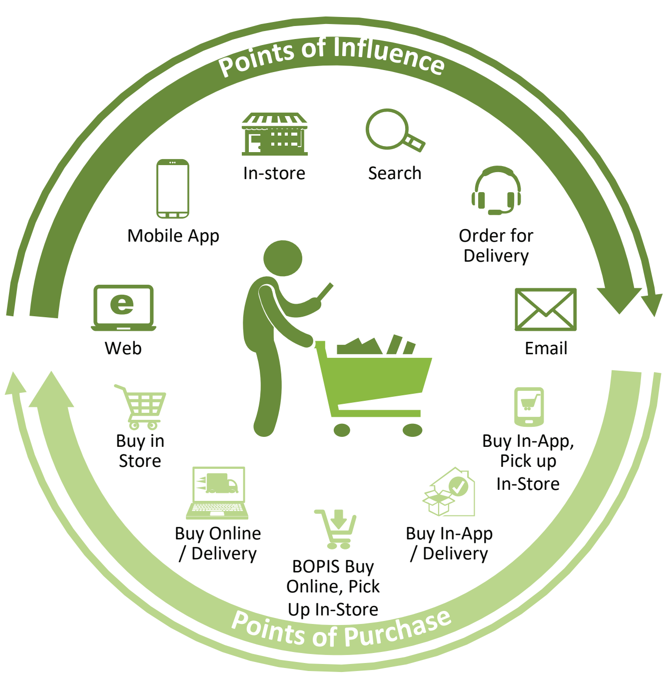
How is the current environment impacting the Marketing Technology space?

The unique combination of COVID-19 precautions – shelter-in-place, work-from-home, travel restrictions, store and restaurant closures, etc. – are driving dramatic changes in consumer behavior in a very short period of time. Many of these changes are an acceleration of decades-long shifts to e-commerce and engaging with and acquiring customers through digital channels. We believe many of these consumer behavior changes will be lasting and habits created during the pandemic will remain, which should benefit many marketing technology businesses over the longer term.

However, in the nearer term, marketing and advertising spend are impacted by downturns as companies pull back on marketing spend against lower demand from existing and prospective customers. Unlike past downturns, the drop-off in demand has been much more severe, with certain verticals like retail, restaurants and travel/hospitality shut down and certain marketing mediums prohibited (e.g., large-scale events, etc.). While digital is weathering the storm better than most channels, it is not immune. Online advertising in particular is more heavily impacted as it is a more liquid expense that can be easily turned on and off, and overall online advertising growth is expected to be down significantly from pre-COVID projections, although many digital channels will still see growth in 2020. Not surprisingly, we see recurring revenue software businesses as more resilient in this environment, but nonetheless, solutions that are seen as discretionary or "nice to have" are facing headwinds as well. Segments we see as most resilient are those that are more foundational in nature and required to execute a base level of business during the downturn and include serving existing customers versus trying to acquire new ones and are not easily switched on and off.

There are reasonable questions to ask regarding the sustainability of higher growth and engagement in digital channels; however, we believe the step-function changes in e-commerce and digital marketing share are unlikely to recede as consumers do not go back to their old ways and a "new normal" emerges in which the offline and online worlds are more intertwined than ever before. We expect digital mediums and related platforms for managing customer data and optimizing digital content will see significant growth over the next cycle.

THE PATH TO PURCHASE



Setting aside the current environment for a moment - what long-term, secular drivers do you see playing out in your universe of coverage? What about within marketing tech?

One of the bigger secular trends we see impacting marketing technology is the behavior of the end customer and their process for making purchase decisions. Whether B2C or B2B, that Path to Purchase has become significantly

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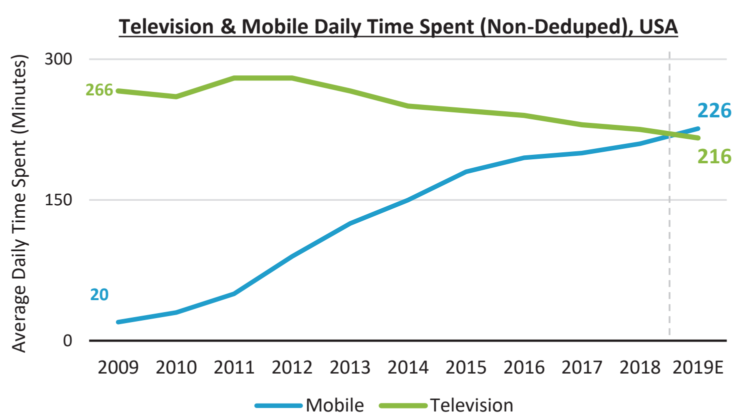
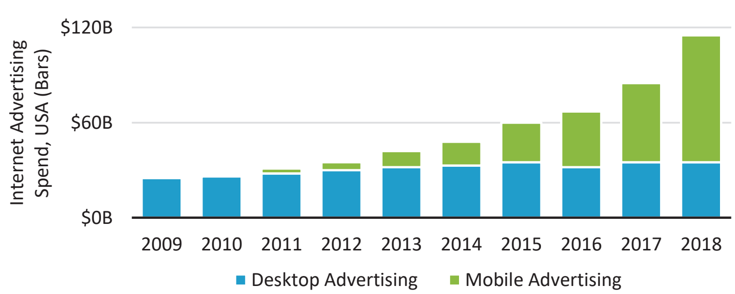
fragmented. Customers have so many options to choose how they discover products or services, try them and eventually decide to purchase them. Those options will only continue to increase as new, primarily digital channels and mediums continue to proliferate. There are several other trends we see that impact that path to purchase and therefore the types of technologies that will be required to win customers.

MOBILE HAS SURPASSED TV IN TIME SPENT BY CONSUMERS



Source: eMarketer and SimiCart

MOBILE IS DRIVING ALL THE GROWTH IN ONLINE ADVERTISING



Source: eMarketer and SimiCart

First, hitting on what we discussed earlier, there is an undeniable shift to digitally focused commerce and engagement – this has been happening for two decades, driven by significant advances in technology infrastructure and consumer adoption and behavior change. As those innovations and behavior changes continue, we see that shift accelerating, and the pandemic has accelerated that shift even more.

Mobile has become the most important channel and the smartphone revolution created a paradigm shift in the world of marketing. It has moved from a secondary screen to the primary one, and the only one in certain parts of the world. This has created a strong need for marketers to think "mobile first" or, in some cases, "mobile only." Mobile devices carry almost every aspect of their users' lives and can provide multi-layered insights on consumers, providing unique opportunities for cross-channel marketing and personalization.

The rise and collection of digital data has been the most critical ingredient to the success of the fastest-growing and most successful companies of our time. Unprecedented amounts of consumer data are created at every touchpoint. That requires advanced technology to understand the customer's intent and ultimately deliver better customer experiences in a more personalized manner while maintaining a consistent, omni-channel message. At the same time, marketers must comply and respond to the growing importance of data ethics and regulation to ensure they are procuring and utilizing the data in a way that is compliant and maintains trust with the consumer.

What's driving M&A and equity financing activity in marketing tech?

We saw 2019 as one of the most active years across marketing technology as the deal counts spiked across many sectors and the number of $100M+ transactions was also up significantly. Similarly we saw a record number of growth equity transactions with 10+ companies raising over $100M in capital. This increase in activity is driven by a number of specific trends in each subsector as well as some of the pervasive trends across marketing technology more broadly that

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we've already discussed. We have seen an increasingly diverse set of strategic buyers that come from a variety of categories, including marketing clouds, agencies, telecom, media, online advertising/internet platforms, and new entrants that are the brands themselves as buyers, including McDonald's acquisition of Dynamic Yield and Mastercard's acquisition of SessionM. We've also seen private equity emerge as a very active and important buyer in the category over the last several years, which we believe will continue.

What are the valuation drivers for marketing tech companies? What would you say are the critical factors going forward?

We see the following drivers of value in marketing technology:

- Market leadership and competitive moat
- Strong organic revenue growth
- Clear story around M&A/inorganic growth
- Revenue quality – high retention and recurring/reoccurring, cycle resistant and predictable revenue model
- Defensibility of technology
- Profitability and margin profile – high gross margins and operating leverage
- "Rule of 40" – revenue growth + EBITDA margin exceeding 40%

We see a premium placed on businesses that have a high quality of revenue combined with premium growth and margin characteristics. Obviously not all business models in this category are SaaS or have contractual recurring revenue, but transactional or services businesses that can demonstrate similar KPIs and a high quality of revenue can attract similar valuations.

Lastly, what makes Baird's marketing technology coverage unique?

We combine strong momentum and a long track record of experience in the category with a unique, collaborative approach to covering the space. There is a core marketing technology & services coverage team at Baird, but increasingly we're seeing the lines blurred between other areas of our Technology & Services group as well as other Baird industry groups. Given Baird's entire investment banking department operates on one P&L, there are no impediments to collaborating across our large Technology & Services group, other industry groups or our colleagues in international offices. This enables us to bring in senior bankers with the most relevant coverage, transaction experience and buyer relationships for every client situation.

The Baird Disruptor

reCOMMERCE

reCommerce

Growth Equity Investment by

Topspin Consumer Partners

Balance Point Capital

This section highlights the companies, technologies, transactions and trends Baird is monitoring as the Tech & Services landscape continues to evolve. In this issue, we're spotlighting a company that's transforming how brands sell their products on the Amazon Marketplace.

Amazon is disrupting the retail industry, both online and offline, and its influence is only continuing to grow. Amazon dominates e-commerce in the U.S., and roughly half of product searches start on the Amazon platform. Brands have traditionally had (and still do have) concerns about Amazon as a competitor, but most have realized it's a very important channel where a significant majority of their customers are shopping, and if a brand is not on Amazon, they're losing out on roughly half of all online product searches. Brands can have either a first-party (1P) or third-party (3P) relationship with Amazon. A 1P relationship means Amazon acts as the retailer and the brand operates as a wholesale supplier to Amazon. With a 3P model, the brand sells products directly to consumers via the Amazon marketplace. Amazon is opening more e-commerce capabilities and shifting resources to 3P sellers, prioritizing the 3P marketplace, which is a larger, faster-growing and more profitable business for Amazon.

However, selling on Amazon is very complex and challenging for brands. Brands face a myriad of challenges including bland and inaccurate product listings, MAP pricing violations, diverted or counterfeit items sold by unauthorized resellers, unorganized Amazon fulfillment infrastructure and out-of-stocks, and a nonexistent Amazon advertising strategy. This has created a strong need for solutions to alleviate the many pain points associated with selling on Amazon. We are seeing strong growth in an emerging ecosystem of technology & services companies that are dedicated to helping brands optimize their presence on the world's leading e-commerce marketplace.

One such business is **reCommerce**. Baird recently served as the exclusive financial advisor to reCommerce on its investment by Topspin Consumer Partners. reCommerce offers leading consumer brands an end-to-end solution on Amazon, allowing them to capitalize on growing demand and navigate the complexities of the world's leading online marketplace. reCommerce combines its proprietary in-house technology platform with world-class creative, marketing, data analytics, brand protection and logistics services to drive the growth of leading brands on Amazon.

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