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M&A market report 2H 2019

E-Commerce

DAWN OF THE PLATFORM AGE

In April 2019, the highly anticipated $1.4 billion IPO of social discovery platform Pinterest put later-stage e-commerce firms in the spotlight. American social-media-oriented fashion retailer Revolve soon followed suit, raising $196 million and generating 84.3 per cent return from IPO; as did Nigeria-based online marketplace Jumia, tipped as the Amazon of Africa, raising $212 million and generating 86.4 per cent return on IPO. Both ranked in the 10 most successful VC exits so far this year.

These transactions highlight the largest trends in e-commerce today: the rise of social commerce and the rise of platforms.

Social commerce sees high growth, especially on mobile channels

The proliferation and adoption of social media has hardly reached its peak: the number of users scrolling through Instagram during any given minute is expected to double from 174,000 in 2018 to a whopping 372,000 in 2019.

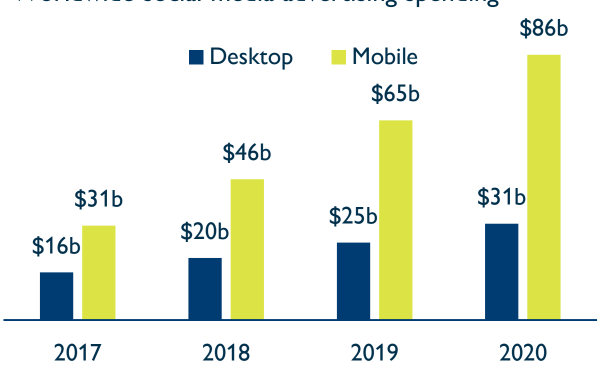
As microbrands leverage social media and influencers to rapidly penetrate niche market segments, we expect that acquisitions will play an important role for legacy brands seeking to integrate social commerce into their business models.

Investors show confidence in platform providers

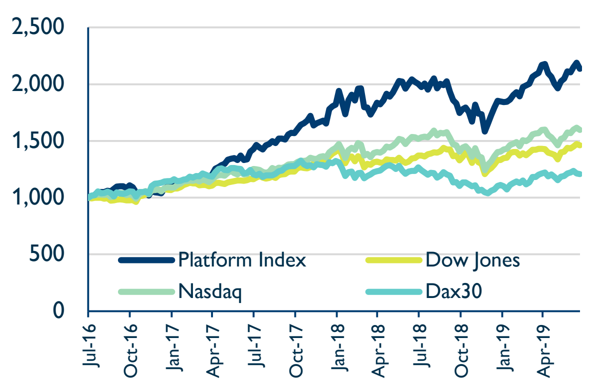
The ever-growing prevalence of marketplaces and platforms, which provide any business or brand with a "storefront" online, is driving most major e-commerce trends today. Investors are keen to capitalise on the growth of the platform economy, which has seen exceptional stock market performance of platform providers such as Alibaba or Etsy. When comparing an index of the 15 largest platform providers to other indices, the former consistently outperformed both the Nasdaq and Dow Jones, trading approximately 33 per cent higher than the Nasdaq as of mid-July 2019.

Momentum on the stock markets has also translated into M&A activity, with Etsy acquiring vintage music gear marketplace Reverb for $275 million in July.

Worldwide social media advertising spending



Source: Internet World Business 2019



Source: Platform-Index.com

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M&A SUMMARY

The first half of 2019 saw strong, consistent valuations in the e-commerce space. The trailing 30-month median EV/EBITDA multiple remained stable since its peak in 2H 2017, inching down only slightly to 14.2x. The trailing median EV/S multiple has shown similar stability, hovering between 2.2x and 2.3x since 2H 2016.

E-commerce space matures

While later-stage companies have enjoyed strong exit valuations, funding for early-stage e-commerce companies has been lower. In Germany, it decreased by 80 per cent to $230 million in 1H 2019, compared to almost $1.2 billion in 1H 2018.[1] As the industry slowly matures, M&A transaction volumes have declined slightly over the past reporting periods across all three subsectors.

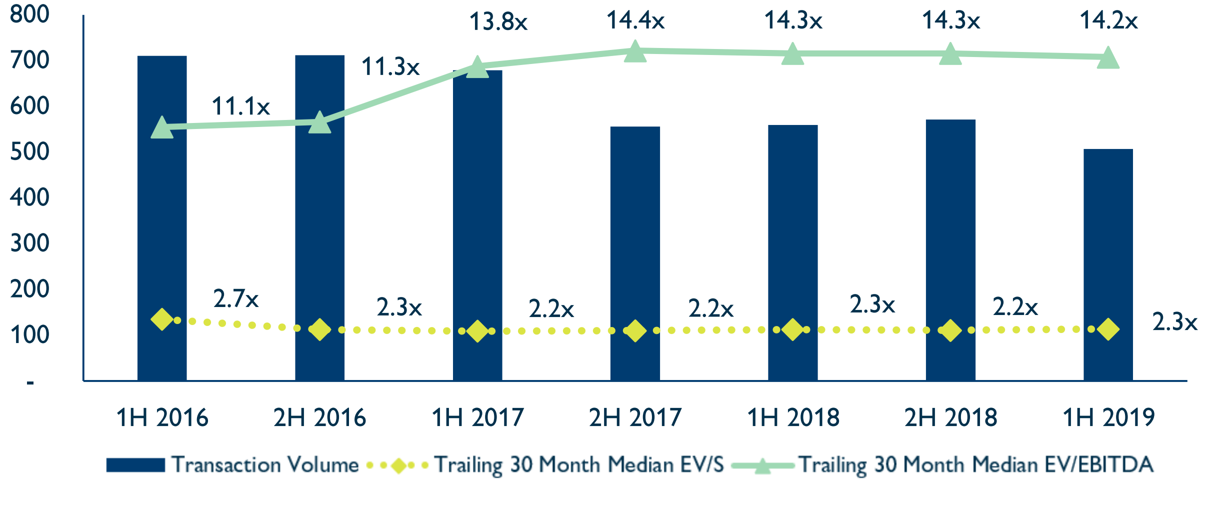
Financial buyers continue to drive big-ticket deals

Deal activity has been generated by strategic buyers ranging from tech companies to incumbents, particularly in industries that rely on platform and infrastructure acquisitions to remain digitally competitive – for example, retail.

Yet the period also saw sustained activity from financial buyers, who are taking advantage of cheap debt and completed some of the largest transactions in the sector: in May, Apax Partners acquired Trade Me Group, a New Zealand-based provider of online auction and classifieds services. Later, in June, Apollo Global acquired Shutterfly, a provider of online photo printing, sharing and storage services. Each deal was inked for approximately $1.7 billion.

Meanwhile, the sector's largest deal was Churchill Capital Corp's merger with Clarivate Analytics in a secondary buyout worth $4.2 billion. Clarivate, originally the IP and Science arm of Thomson Reuters, provides insights and analytics for clients to discover, protect and commercialise ideas.

However, all in all big-ticket deals were few and far between. Compared to the last reporting period, 1H 2019 saw fewer billion-dollar deals, and those which did close were smaller in size than previously.



All totals and median values refer to the entire period unless otherwise stated. Median multiples plotted in the graphs refer to the 30-month period prior to and including the half year.

[1] Funding data according to Ernst & Young's Start-up Barometers Germany, July 2019.

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TOP ACQUIRERS

The first six months of 2019 saw some previously familiar names drop off the most active acquirer list, following a cooldown in deal activity throughout 2018. Motorsport Network, for instance, topped the ranking for several periods but no longer features, having been replaced by the likes of Walmart, Ebix and CoStar Group.

Walmart's latest acquisitions include the acqui-hire of Int Data Labs, an AI-powered virtual analytical platform that translates data into relevant insights. The deal expands the team of AI engineers at Walmart Labs, a subsidiary which focuses on redefining the on and offline shopping experience through technology.

Acquirers	Acquisitions in 30 months	Three most recent acquisitions
bite squad	17	**Café Courier Ohio** online food delivery services **256ToGo** online food delivery services **2 Dollar Delivery** online food delivery services
j2 Global	12	**Castle Connolly Medical** online physician search & review website **Serinus42** real-time outage detection based on SM monitoring **BestBlackFriday.com** online Black Friday deal aggregation websites
Walmart	10	**Int Data Labs** AI data analytics **Art.com** global online retailer of posters, prints and original art **BareWeb** online women's clothing retailer
investoo group	9	**eFXto Forex** Spanish-language Forex news & analysis **VantagePointTrading.com** stock trading information website **Cryptostart.nl** cryptocurrency news & information website
catenamedia	8	**LeapRate.com** online Forex news **GG.COM** online horse racing website **Squawka** soccer news website
Alibaba Group 阿里巴巴集团	8	**Daraz Group** Pakistani online retailer **ORDRE** online apparel retailer **Ele.me** China-based online food delivery
CoStar Group	7	**Off Campus Partners** online off campus housing directory & services **Cozy Services** rental management services website **Realla** commercial property marketplace & data management SW
EBIX	7	**Yatra.com** online travel reservations services **Essel Group** India-based forex exchange **Weizmann Forex Limited** India-based Forex exchange

TOP TRENDS IN E-COMMERCE

Data alliances: the new model for retail media

As online retailers and marketplaces generate more traffic and user data, they offer advertisers increasingly focused ads on their platform.

The hunger for more data is pushing retailers to seek new ways to expand their datasets. In Germany, multichannel retailer OTTO and online advertising services provider Ströer established a joint venture to combine a total of 50 million datasets, providing them with one of the largest targeting ranges in the country.

MARS	Edgewell Personal Care
27 June	09 May
ACQUIRED	**ACQUIRED**
Not disclosed	$1.4 billion
foodspring	HARRY'S

Rise of microbrands driven by proliferation of social media and commodification of e-commerce tech

Legacy brands that lack the nimbleness to innovate quickly are looking to acquire microbrands – agile innovators that quickly conquer a market niche, sometimes almost overnight.

Microbrands leverage direct-to-consumer contact provided by social media and influencers to assess the potential of new concepts, and rapidly target a large audience of likely consumers with high precision. Their essential fulfilment infrastructure is readily available off-the-shelf, and production and shipping are outsourced.

Some legacy brands have paid hefty sums to acquire successful microbrands, as illustrated by acquirers MARS and Edgewell, and we expect this trend to evolve further.

- Rise of **marketplaces and platforms,** particularly mobile-first and factory-to-consumer marketplaces such as Letgo, Joom and Wish
- **Social commerce** skyrocketing to new levels, particularly on Instagram, Facebook, Pinterest and WeChat, but also on Snapchat and YouTube
- **Headless commerce architecture** and **progressive web apps** give retailers the flexibility to develop UX without affecting back-end systems
- Increased **importance of post-purchase customer journey**, especially integration of text and voice-based messengers into CRM systems
- **AI entering e-commerce** for use in search or filter functions, data mining, content creation and anti-counterfeiting
- Consolidation in the **online food delivery service** as incumbents fend off tech giants through acquisitions
- Deal activity by **financial buyers** bringing lustre back to the sector

LARGEST TRANSACTIONS

Shift to online grocery retail continues

On the heels of Walmart's landmark $16 billion acquisition of Flipkart last year, other retailers pursued acquisitions to develop their online footprint. In February, Marks and Spencer entered the online grocery retail space as it acquired a 50 per cent stake in UK-based Ocado. The transaction will allow M&S to attract more shoppers by broadening M&S' relatively limited product offering and leveraging Ocado's technology platform and delivery network. M&S Food estimates at least $86 million of synergies per year to be achieved by the third year of completion.

LARGEST DISCLOSED DEALS OF 1H2019

$4.2 billion 14 January	Churchill Capital Corp. merges with Clarivate Analytics
$1.7 billion 10 June	Apollo Global Management acquires Shutterfly Inc.
$1.7 billion 09 May	Apax Partners acquires Trade Me Group
$998 million 27 February	Marks and Spencer Group acquires Ocado Retail
$750 million 08 April	2U Inc. acquires Trilogy Education Services Inc.
$623 million 13 June	JPJ Group acquires Gamesys Ltd.
$400 million 24 January	Modern Media Acquisition Corp. acquires Akazoo Ltd.
$336 million 11 March	Ebix Inc. acquires Yatra.com

Streaming continues to gain momentum

Over the last ten years, streaming has revolutionised the way we consume media. The first half of 2019 saw the number of VOD subscriptions worldwide exceed the number of cable subscriptions. Traditional providers of video entertainment face the heat from the likes of Netflix, and digital home entertainment is the primary driver of growth in the motion picture industry. Unsurprisingly, therefore, incumbents are on the lookout for targets that can move them into next-generation distribution platforms.

In January, US-based broadcasting conglomerate Viacom – the owner of channels such as Nickelodeon, MTV, Comedy Central and Channel 5 (UK) – acquired online streaming service Pluto TV for $340 million. The transaction will grow Viacom's footprint in video streaming and develop its advanced advertising business; and, conversely, Viacom's global reach and extensive content library will accelerate Pluto's growth and geographic presence.

Meanwhile, 1H 2019 also saw some deal activity in the music streaming space, with Modern Media Acquisition Corp's reverse takeover of Akazoo. Since its foundation nine years ago, Akazoo has accumulated 4.3 million subscribers across 25 countries, has developed a focus on emerging markets, and acquired music personalisation engine R&R music in 2015.

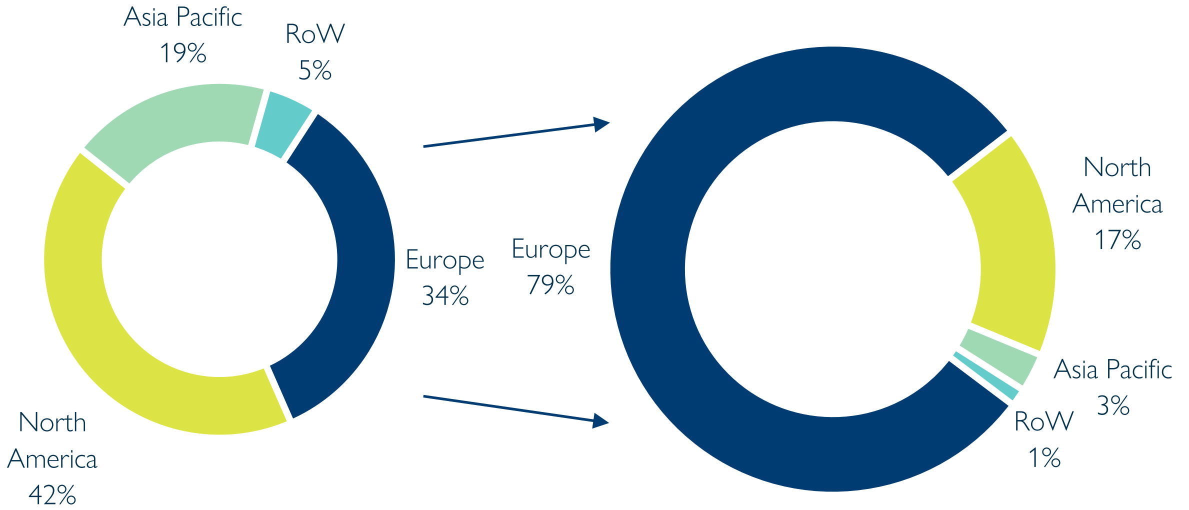
VIACOM
22 January
ACQUIRED
$340m
3.1x EV/S
PLUTO TV

MODERN MEDIA Acquisition corporation
24 January
ACQUIRED
$400m
3.4x EV/S
akazoo

SUB-SECTOR BREAKDOWN

Headquarters of e-commerce targets

Headquarters of acquirers of European targets



79%

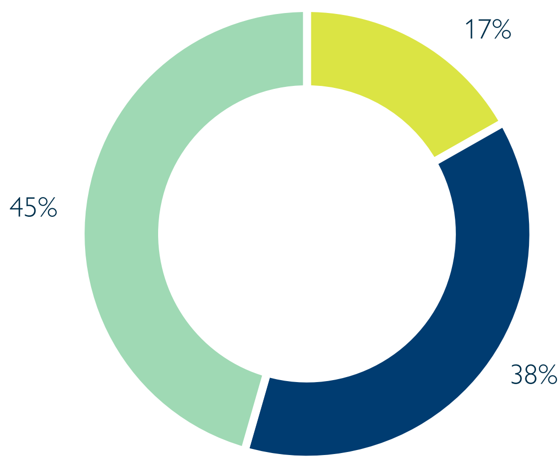
European investors recorded another dominant half-year of deal-making within their region, as 79 per cent of European targets were bought by European acquirers, while only 17 per cent were bought by North American acquirers.

Meanwhile, North American targets have maintained their majority share of M&A activity in E-commerce, accounting for around 42 per cent of global deals.

Online Retail
E-commerce retailers, online marketplaces, classifieds, auctions.

Internet & Information Services
E-commerce services & software, analysis & reference providers, online advertising, directories, search, exchanges, education.

Media & Social
Social networking, online games, entertainment, online communities, video, blogs, music, news content.



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ONLINE RETAIL

Valuations in the online retail subsector have been notably stable, with EV/S multiples rising from 0.8x to 1.2x between 2H 2016 to 1H 2019, and EBITDA multiples oscillating between 14.5x and 14.6x. After a slight rebound in 2H 2018, transaction volumes have continued the gradual decline visible since 2H 2016.

M&S acquisition of stake in Ocado has ripple effects

Earlier in 2019, Ocado shifted its strategic direction towards online groceries when it inked a JV with M&S. Ultimately, this led to the spin-off of Ocado's content-led premium beauty retailer Fabled by Marie Claire to Next, another big name on the UK high street. Next partnered with Fabled for eight months in the run-up to the transaction.

Consolidation in food delivery

As UberEats grows and Amazon leads a $575 million investment in Deliveroo, incumbents in the food delivery industry are pursuing acquisitions to dominate local markets and fend off the looming threat of tech giants.

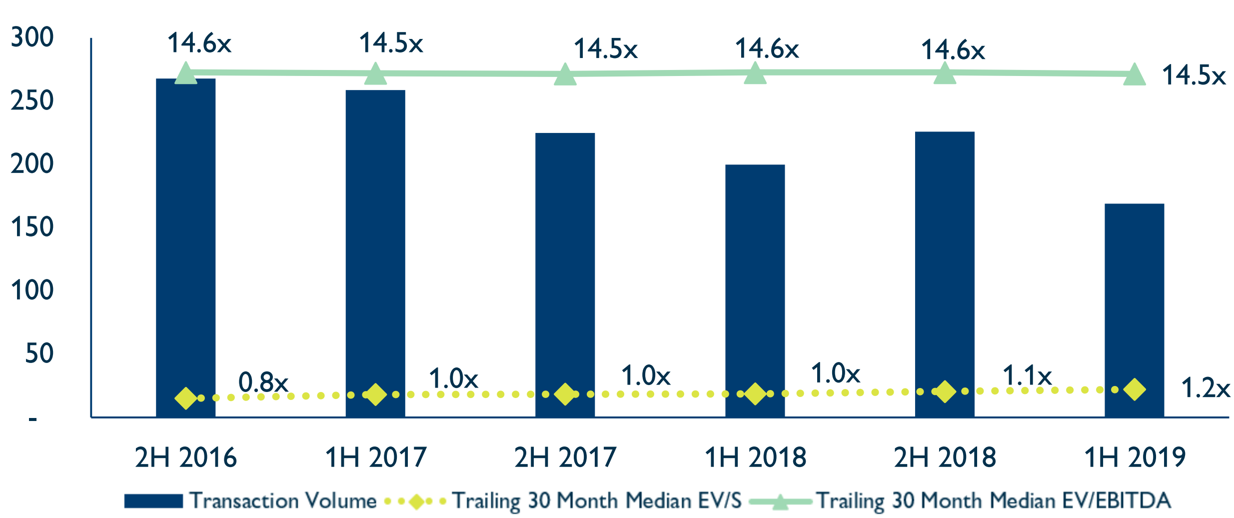
After selling its domestic operations to Takeaway.com in December 2018, Berlin-based Delivery Hero made a push to expand its portfolio of international brands

In 1H 2019: in March, the company acquired Zomato's UAE operations, adding to its existing UAE brand foodonclick. Then, in May, it consolidated its Swedish presence by acquiring Hungrig.se, thereby adding to its existing Swedish brand Onlinepizza.se.

In late July, Takeaway.com announced a $10 billion merger deal with Just Eat – potentially one of the largest e-commerce transactions on record.

NOTABLE TRANSACTIONS IN 1H2019

	ACQUIRED	
M&S EST. 1884	27 Feb $998 million	ocado
next	19 Jun Not disclosed	FABLED by marie claire
Delivery Hero	04 Mar $172 million	zomato UAE operations
Delivery Hero	07 May Not disclosed	HUNGRIG.se



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INTERNET & INFORMATION SERVICES

In this subsector, transaction volumes have been relatively stable since late 2017. The median revenue multiple has shown similar stability. Though the median EBITDA multiple has shown a slight downward trend since its peak in 2H 2017, it remains above its 2H 2016 level.

Online travel services take flight

1H 2019 saw strong interest in targets in the online travel service space, with a total of 31 deals closed altogether – accounting for 13 per cent of total transaction volume in Internet & Information Services.

Travel guide publisher Lonely Planet's acquisition of content-based booking service TRILL highlights the rise of social commerce in travel: TRILL offers an AI-enabled marketplace for travellers, influencers and hospitality service providers that turns Instagram posts into bookable experiences.

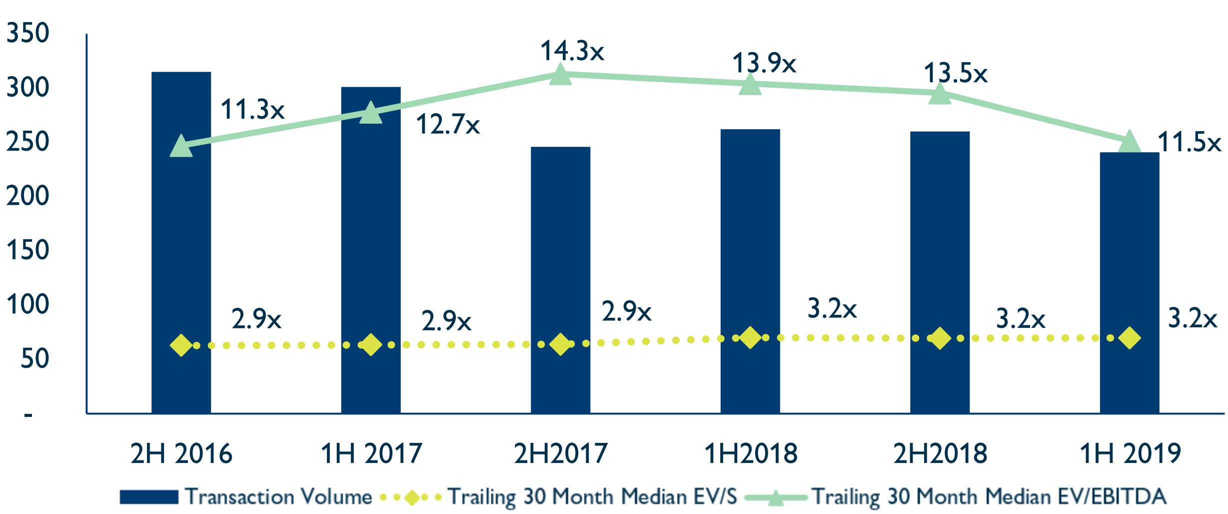
In turn, social media platforms are trying to get a slice of the online travel services market, as illustrated by the acquisition of online travel agency Tidesquare by Kakao, a leading provider of instant messaging and ancillary services in South Korea.

Meanwhile, online travel incumbents have not been resting on their laurels. In a move to further expand beyond homestays, AirBnB acquired HotelTonight., which provides mobile applications for booking same-day unsold hotel deals.

Interest from the financial services sector has come from financial exchange platform provider Ebix, which acquired Indian online booking platform Yatra in one of the largest transactions in the space so far this year. In addition, American Express completed two travel-related acquisitions in 2H 2019, acquiring online airport lounge services provider LoungeBuddy as well as Japanese restaurant booking platform Pocket Menu.

NOTABLE TRANSACTIONS IN 1H2019

	ACQUIRED	
lonely planet	03 Apr Not disclosed	TRILL
kakao	20 Mar Not disclosed	TIDESQUARE
EBIX	11 Mar $338 million 2.0x EV/S	yatra
airbnb	07 Mar Not disclosed	Hotel Tonight



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MEDIA & SOCIAL

Valuations have been very strong in the Media & Social subsector, with median EBITDA multiples climbing from 9.1x in 2H 2016 to 15x in 2H 2019. Transaction volumes grew by 14 per cent compared to the last reporting period, despite some earlier fluctuations since 2H 2016.

Gaming drives deal activity in the subsector

With a total of 27 transactions, gaming accounted for almost 28 per cent of the transaction volume in 1H 2019. Online gaming and gambling firm JPJ Group flexed its muscles in acquiring online game operator and developer Gamesys. The acquisition – one of the largest e-commerce deals so far this year – allows JPJ to enhance competitiveness by boosting scale.

Earlier this year, JPJ span off its online bingo assets to 888 Holdings, the most prolific gaming acquirer of 1H 2019. In addition to JPJ's bingo assets, the Gibraltar-based online gaming holding company acquired web and mobile sports betting platform BetBright.

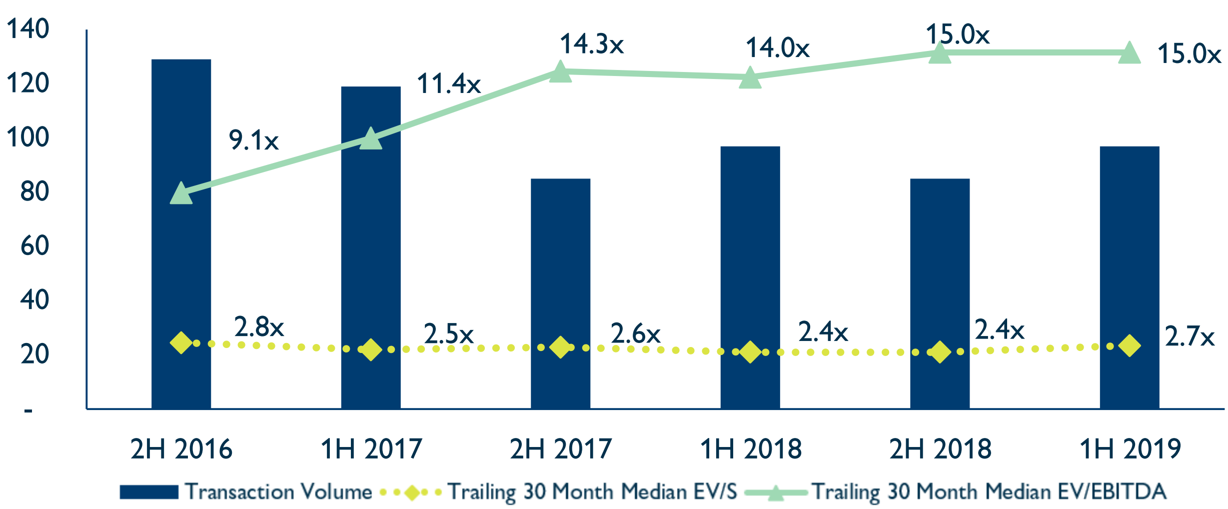
Tech giants strengthen footprint in gaming

In a move to develop its nascent e-sports offering, Amazon subsidiary Twitch acquired Bebo, a platform for gaming events that has pivoted several times since starting one of the first social networking websites in 2005. Bebo will help broaden the range of content available on Twitch's game streaming platform and ultimately become one of the many moving parts drawing users to the Amazon ecosystem.

In addition, Microsoft bolstered its Xbox team with the acquisition of game development studio Double Fine Productions, bringing the total number of studios under its Xbox Game Studios unit to 15.

NOTABLE TRANSACTIONS IN 1H2019

	ACQUIRED	
twitch amazon	18 Jun Not disclosed	BEBO
JPJ Group plc	13 Jun $623 million	gamesys
Microsoft	09 Jun Not disclosed	Double Fine
888 HOLDINGS	19 Feb $23 million	JPJ Group plc Online bingo assets



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CONCLUSION & CONTACTS

The first half of 2019 saw an increasing need for supporting fulfilment infrastructure and software, owing to the growth of the platform economy, the rise of new, niche marketplaces and the strategic shift of retailers towards the platform business model in response to the hegemony of Amazon.

In the near future, AI and blockchain are set to play an important role in combating counterfeiting and IP infringement on marketplaces, especially as mobile marketplaces gain momentum.

Finally, following its foray into the food delivery business through investment in Deliveroo, Amazon is rumoured to be launching a food delivery service in India. In the face of strong competition in the Chinese market by local players such as Alibaba and Baidu, India is a logical market to expand in. We expect that, as one of the leaders of the platform economy, Amazon will continue to expand both the scope of its ecosystem and its geographic footprint.

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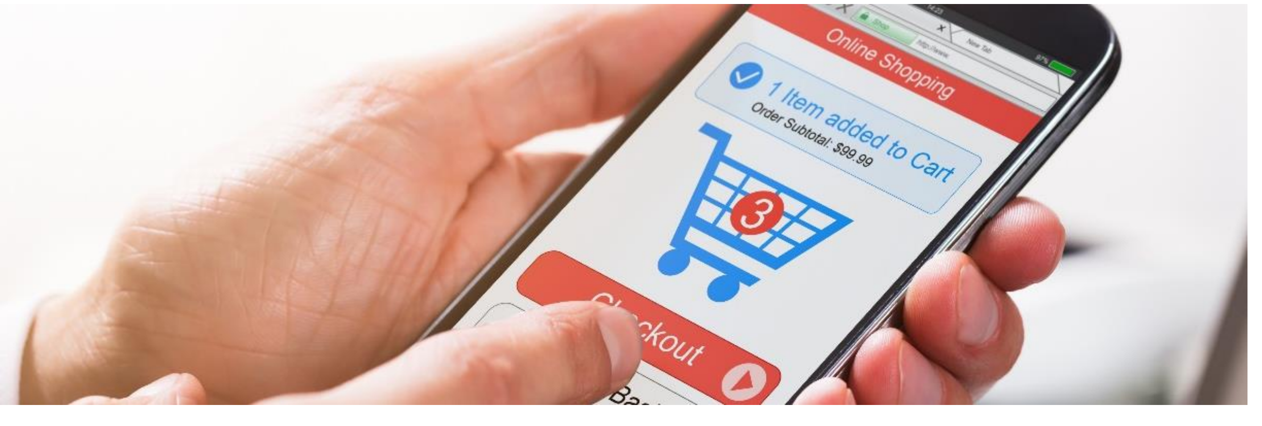

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