



eCommerce Quarterly: Q4 2019

# Brands vs. Marketplaces

We separate the eCommerce market into two categories: Brands and Marketplaces. Of the many ways to divide up and organize the eCommerce market, the distinction between Brands and Marketplaces emerges and is likely the most differentiating from a financial and hence, valuation perspective.

- **Brands** — Brand companies innovate, create and deliver their own proprietary products and reach the consumer either directly through websites and company-owned stores, or indirectly, through channel and retail partners which may include Marketplaces.
- **Marketplaces** — Marketplaces build online portals to sell products, usually not made or branded by that Marketplace. Marketplace “Resellers” acquire title to goods for resale to consumers, while “Platforms” do not take title and enable third party sellers and buyers to engage directly in eCommerce transactions. In this sense, revenue for Resellers is equivalent to the total value of all products transacted (Gross Merchandise Value or “GMV”), whereas revenue for Platforms is on a net basis and more representative of a “take rate” representing the fees they charge buyers and sellers.

Brands and Marketplaces have distinct characteristics that drive their financial profile and ultimately their valuation. Several of the key factors that drive these differences are cited below.

- **Market Dynamics** — Oligopolies are more likely to form in a Marketplace whereas Brands tend to make up a highly fragmented market.
- **Gross Margin** — Many of today’s Brands benefit from a direct-to-consumer (“DTC”) model that often cuts out the middleman entirely, thus giving them superior Gross Margins, on average.
- **Sales & Marketing Spending** — High marketing spending is seen more often in Brands than Marketplaces, yet many Brands can work through influencers and use viral marketing to lower direct marketing spend.
- **Capital Intensity** — Marketplaces tend to run lighter on Inventory and PP&E when compared to Brands, although many Brands have taken a cue from asset-lite models and are outsourcing certain functions.

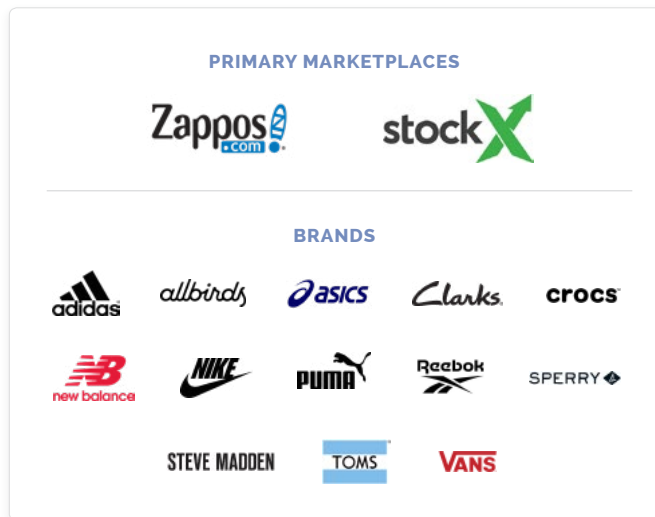
## Market Dynamics

There tends to be an oligopoly of Marketplaces left standing after years of competition in any given product category. At inception, Marketplaces grow by focusing on achieving scale through advantages of price, promotion and product assortment. Ultimately, the most liquid and cost-effective player wins — scale begets more advantage to the leader(s). Often, this lack of competition in the mature stages of a Marketplace provides a premium valuation.

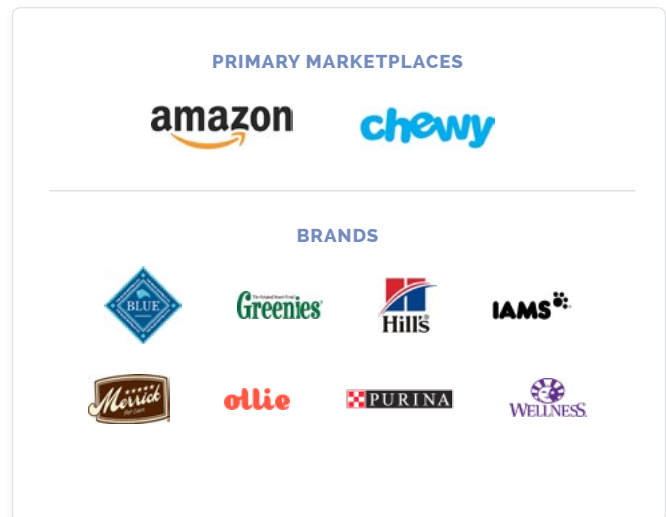
On the other hand, there are usually hundreds, if not thousands, of Brands for one product because of consumers' varied tastes and styles, among other factors. For example, there would never be just one shoe company or clothing company — there are too many potential variations in the product. Nevertheless, Brands often carve out their own niche within their respective product category. Allbirds, for example, has developed an environmentally friendly image and shoe that consumers embrace enthusiastically, which effectively differentiates them from other shoe Brands.

## Examples:

### Shoes



### Pet Market



Below is a selection of eCommerce Brand and Marketplace companies for analysis.<sup>1,2</sup>

	Gross Margin % (TTM) <sup>3</sup>	Sales & Marketing % of Revenue (TTM)	Asset Intensity (TTM)	Projected Growth (NTM) <sup>4</sup>	Revenue Multiples (NTM)
<b>Brands</b>					
1-800-Flowers.com	42%	26%	33%	8%	0.8x
Casper Mattresses	48%	36%	21%	N/A	N/A
Cimpress	49%	25%	22%	3%	1.7
Peloton Interactive	42%	35%	79%	53%	4.5
Purple Innovation	41%	31%	16%	33%	0.9
SmileDirectClub	76%	60%	20%	50%	2.9
<b>Average</b>	<b>50%</b>	<b>35%</b>	<b>32%</b>	<b>29%</b>	<b>2.2x</b>
<b>Resellers</b>					
Chewy	23%	10%	13%	26%	2.0
Overstock.com	19%	10%	12%	-6%	0.2
PetMed Express	30%	9%	17%	4%	1.3
REVOLVE	54%	29%	20%	21%	1.7
Wayfair	24%	12%	16%	27%	0.9
<b>Average</b>	<b>30%</b>	<b>14%</b>	<b>15%</b>	<b>15%</b>	<b>1.2x</b>
<b>Platforms</b>					
eBay	77%	30%	20%	0%	3.4
Etsy	68%	26%	24%	29%	5.6
The RealReal	65%	17%	21%	35%	3.3
<b>Average</b>	<b>70%</b>	<b>25%</b>	<b>22%</b>	<b>21%</b>	<b>4.1x</b>

## Gross Margin

Successful Brands enjoy high gross margins: they create and produce highly valued goods and often sell direct-to-consumer or through third party channels without a retail presence. As noted above, Resellers take title to goods and book the

full value of products sold as revenue. As such, their gross margins appear lower than Platforms for which revenue excludes product cost of goods. Notwithstanding, certain Resellers have countered this issue by developing their own private label brands (e.g., AmazonBasics) to enhance their Gross Margins.

1 Asset Intensity = (Total Inventory + Net PP&E) / TTM Revenue

2 Financials taken from Casper's (NYSE: CSPP) S-1.

3 Trailing twelve months as of 9/31/2019, except for Chewy.

4 Next twelve months as of 9/31/2020, except for Chewy. Enterprise Value data as of 12/31/2019.

## Sales & Marketing Spending

Brands generally spend more to acquire customers and to spread awareness both in the form of targeted marketing (Google, Facebook, Influencers, etc.) and through brand marketing to raise awareness. Marketplaces tend to spend less on marketing as a % of revenue, which could be the result of one or a combination of the following factors:

- *Leveraging the Brand Awareness of their Brands* — Because Marketplaces sell Brands' products, they can rely on the brand awareness of those Brands without spending any marketing dollars. For example, if you were to Google "Blue Buffalo Dog Food" you will see a link to Blue Buffalo's website where you can buy directly from them. You would also find a link to Chewy's (NYSE: CHWY) selection of Blue Buffalo dog food from an unpaid ad. *Chewy* did not spend any marketing dollars for this link or on brand marketing, simply profiting off the brand awareness of Blue Buffalo.
- *More Products, More Repeat Purchases* — Marketplaces generally have more product selection than Brands, which gives them the opportunity for more repeat purchases. For instance, if you buy a shirt from a Brand that only offers shirts, the repeat purchase rate will presumably be lower because you can only buy so many shirts; however, if you buy a shirt off *eBay* (NASDAQ: EBAY) and it is a positive experience, there are millions more products and product categories you can buy on *eBay*. Although there are instances where a repeat purchase is the result of paid advertising, it's more likely that a repeat purchase did not require additional marketing spend. There's a reason that repeat purchase rate is such a coveted and scrutinized metric.



- *Our Selected Marketplace Companies* — Our selected Marketplace companies average \$3.4B in revenue compared to \$1.1B for Brands. Three out of the six Brands have had an IPO in 2019 or are slated to have one this year (e.g., *Casper*) compared to three out of eight for Marketplaces. It is possible that this skews the data to suggest that it's a business model difference driving high marketing spending in Brands vs. Marketplaces when potentially it's because most of the Brands selected are smaller scale/younger companies that require more marketing spending. While there may be some truth to this, the data suggests otherwise. For example, back in 2008, both *eBay* and *Overstock.com* (NASDAQ: OSTK), at that time young companies, had lower marketing spend as a % of revenue than they do now, at 22% and 7%, respectively. Further, of the recent IPOs, none of the Marketplace companies (*Chewy*, *Revolve* (NYSE: RVLV), and the *RealReal* (NASDAQ: REAL)) have marketing spending as high as any of the recent (or soon to be) Brand IPOs (*Casper*, *Peloton Interactive* (NASDAQ: PTON), and *SmileDirectClub* (NASDAQ: SDC)).



## Asset Intensity


As you would expect, Brands tend to be more asset-intensive businesses given product development, design, production, and inventory costs. There are, however, exceptions to the rule, as Brands have thought of creative ways to innovate and manufacture their goods. For example, while *Purple* (NASDAQ: PRPL) manufactures its own mattresses, it has done so very efficiently consistent with other innovative mattress companies. Similarly, by focusing on selling custom products, *Cimpress* (NASDAQ: CMPR) and *SmileDirectClub* have achieved successful asset-light models. Manufacturing a custom product only after it is purchased, reduces the need for high Inventory and Warehousing PP&E.

## Conclusion



We acknowledge it's a challenge to draw definitive conclusions from the data. We cannot help but to notice the tendency for Revenue Growth to take precedent. Take for instance Peloton Interactive with unremarkable gross margins (42%), high sales & marketing spend (35%) and high asset intensity (79%) but which currently enjoys a superior revenue multiple of 4.5x in large part due to projected growth of over 50%. Other standouts include *SmileDirectClub*, *Chewy*, *The RealReal* and *Etsy* (NASDAQ: ETSY). More complicated cases include those such as *Purple* with its 33% projected growth and a modest 0.9x revenue multiple. In sum, despite some of our theses and the trends we see associated with them, every company's valuation is situation specific

# Private Market



## Notable M&A Transactions<sup>5</sup>

BUYER	SELLER	DATE ANNOUNCED	ENTERPRISE VALUE	EV/TTM REV	EV/EBITDA
		12-11-2019	N/A	N/A	N/A


**Synopsis:** Founded in 2010, Torgoen is an online watch company with an aesthetic inspired by vintage aviation instruments. Deal terms were not disclosed.

BUYER	SELLER	DATE ANNOUNCED	ENTERPRISE VALUE	EV/TTM REV	EV/EBITDA
		12-09-2019	\$90	2.1X	N/A

**Synopsis:** Blenders Eyewear is a manufacturer and retailer of men's and women's sunglasses, snow goggles, and accessories. Safilo group acquired a 70% stake in the company and the Blenders founder and CEO, Chase Fisher, intends to stay and grow the business.

BUYER	SELLER	DATE ANNOUNCED	ENTERPRISE VALUE	EV/TTM REV	EV/EBITDA
		11-25-2019	\$4,050	N/A	N/A

**Synopsis:** StubHub is an online marketplace which allows users to buy and sell tickets for various events. It was co-founded by Eric Baker, CEO of Viagogo, who left the company before it was sold to eBay.



BUYER	SELLER	DATE ANNOUNCED	ENTERPRISE VALUE	EV/TTM REV	EV/EBITDA
		11-18-2019	\$1,180	N/A	N/A



**Synopsis:** Kylie Cosmetics, founded by celebrity and social media influencer Kylie Jenner in 2015, sold a 51% stake to Kylie Inc for \$600 million. Kylie will remain with the company and lead both marketing and product development.

<sup>5</sup> Deal values shown in millions.



BUYER	SELLER	DATE ANNOUNCED	ENTERPRISE VALUE	EV/TTM REV	EV/EBITDA
		11-07-2019	\$845	N/A	N/A
<p><b>Synopsis:</b> Drunk Elephant was started in 2012 and quickly became a marquee clean beauty brand. The company was previously backed by VMG and had estimated sales of \$100 million for 2019. Shiseido acquired 100% of the company for \$845 million.</p>					

BUYER	SELLER	DATE ANNOUNCED	ENTERPRISE VALUE	EV/TTM REV	EV/EBITDA
		11-06-2019	N/A	N/A	N/A
<p><b>Synopsis:</b> Bow &amp; Drape is an online retailer that specializes in custom women's apparel and accessories. The company was founded in 2012 from a Kickstarter campaign that raised \$32,000. The company later raised an additional \$3 million in 2016.</p>					

BUYER	SELLER	DATE ANNOUNCED	ENTERPRISE VALUE	EV/TTM REV	EV/EBITDA
		10-07-2019	N/A	N/A	N/A
<p><b>Synopsis:</b> ModCloth is a digitally native retailer of unique women's fashion and accessories that was founded in 2002. The company was sold by Walmart to Go Global Retail.</p>					

## Notable Financings<sup>6</sup>

PROMINENT INVESTORS	SELLER	DATE OF INVESTMENT	AMOUNT RAISED	PRE-MONEY VALUE
  		12-20-2019	\$17	N/A
<p><b>Synopsis:</b> Summersalt is a D2C swimwear company that's focused on providing eco-friendly products. They plan to deploy the additional capital to expand product lines beyond swimwear and their recently launched travel wear categories.</p>				

<sup>6</sup> Deal values shown in millions.

PROMINENT INVESTORS







SELLER



DATE OF INVESTMENT

12-20-2019

AMOUNT RAISED

\$43

PRE-MONEY VALUE

N/A

**Synopsis:** Willow is a developer of next generation breast feeding products. The company will use the additional proceeds to accelerate product development and expand into new and existing distribution channels.

PROMINENT INVESTORS



SELLER



DATE OF INVESTMENT

12-02-2019

AMOUNT RAISED

\$40

PRE-MONEY VALUE

\$400

**Synopsis:** Dolls Kill is an online retailer that sells festival wear and has a large customer segment of "e-girls." The company was founded in 2011 and while the company didn't disclose sales, they noted they're profitable.

PROMINENT INVESTORS









SELLER



DATE OF INVESTMENT

11-06-2019

AMOUNT RAISED

\$41

PRE-MONEY VALUE

\$60

**Synopsis:** Founded in 2014, Eight Sleep is a manufacturer and retailer of smart mattresses that provide optimal comfort through multiple forms of sleep technology. They plan to invest into further R&D along with doubling their workforce.

PROMINENT INVESTORS



SELLER



DATE OF INVESTMENT

11-04-2019

AMOUNT RAISED

\$17

PRE-MONEY VALUE

\$70

**Synopsis:** Since its founding in 2015, Senreve has focused on designing handbags at the crossroads of fashion, luxury, and everyday use. The additional \$17 million investment brings their total raised capital to \$23 million.



PROMINENT INVESTORS



SELLER



DATE OF INVESTMENT

10-22-2019

AMOUNT RAISED

\$30

PRE-MONEY VALUE

\$100

**Synopsis:** Having been around for almost 200 years, Fulton Fish Market has successfully adapted to numerous shifts in the industry and has recently been taking on the D2C seafood space. To date, the company has raised \$52 million to expand their online platform.

PROMINENT INVESTORS



SELLER



DATE OF INVESTMENT

10-22-2019

AMOUNT RAISED

\$20

PRE-MONEY VALUE

\$80

**Synopsis:** Co-founded by Stitch Fix's former COO, Julie Bornstein, and Bain Capital entrepreneur-in-residence, Amit Aggarwal, The Yes is an AI-powered shopping platform that recently exited stealth mode. The company has raised \$31 million and is expected to launch in late 2020.

PROMINENT INVESTORS



SELLER



DATE OF INVESTMENT

10-19-2019

AMOUNT RAISED

\$71

PRE-MONEY VALUE

\$115

**Synopsis:** Since its founding in 2016, Level Home has raised \$81 million and has been developing smart locks intended to fit on existing door locks. This funding round marks the company's transition out of stealth mode and they expect to start delivering products in Q1 2020.

PROMINENT INVESTORS



SELLER



DATE OF INVESTMENT

10-10-2019

AMOUNT RAISED

\$13

PRE-MONEY VALUE

N/A

**Synopsis:** Verishop is an e-commerce platform that sells premium lifestyle brands hand-picked by beauty and fashion experts. While valuation information was not disclosed, the company had a post-valuation of \$53 million after their Series A in February 2019.

# Public Markets<sup>7</sup>

USD\$ M	Stock Price 2019-12-31	Market Cap	Enterprise Value	Revenue		Growth %		EBITDA		Revenue Multiples	
				TTM	NTM	TTM	NTM	TTM	NTM	TTM	NTM

## Brands

1-800-Flowers.com	\$14.50	\$937	\$1,076	\$1,266	\$1,368	9%	8%	\$77	\$90	0.8X	0.8X
Blue Apron	6.58	87	155	501	431	-30%	-14%	(21)	1	0.3X	0.4X
Cimpress	125.77	3,414	4,825	2,796	2,840	7%	2%	402	492	1.7X	1.7X
Leaf Group	4.00	105	102	155	158	4%	1%	(16)	(1)	0.7X	0.6X
Peloton Interactive	28.40	7,967	7,075	1,031	1,588	137%	54%	(174)	(188)	6.9X	4.5X
Purple Innovation	8.71	469	473	383	507	41%	33%	3	44	1.2X	0.9X
SmileDirectClub	8.74	3,341	3,013	682	1,023	61%	50%	(431)	(40)	4.4X	2.9X
Lower Quartile		105	155	383	431	4%	1%	(174)	(40)	0.7X	0.6X
Mean		2,331	2,388	974	1,131	33%	19%	(23)	57	2.3X	1.7X
Median		937	1,076	682	1,023	9%	8%	(16)	1	1.2X	0.9X
Upper Quartile		3,414	4,825	1,266	1,588	61%	50%	77	90	4.4X	2.9X

## Resellers

Amazon	1,847.84	916,154	952,429	265,469	317,306	20%	20%	33,915	46,452	3.6X	3.0X
Chegg	37.91	4,586	5,043	381	486	27%	28%	52	136	13.2X	10.4X
Chewy	29.00	11,559	11,626	4,580	5,775	118%	26%	(229)	(29)	2.5X	2.0X
Groupon	2.39	1,350	1,153	2,407	2,322	-11%	-3%	81	298	0.5X	0.5X
Overstock.com	7.05	273	238	1,541	1,454	-16%	-6%	(125)	(30)	0.2X	0.2X
PetMed Express	23.52	475	380	275	286	-4%	4%	35		1.4X	1.3X
REVOLVE	18.36	1,264	1,213	581	704	17%	21%	51	70	2.1X	1.7X
Stitch Fix	25.66	2,610	2,613	1,656	2,002	28%	21%	29	114	1.6X	1.3X
Wayfair	90.37	8,416	9,371	8,608	10,935	39%	27%	(581)	(533)	1.1X	0.9X
Lower Quartile		870	766	481	595	-8%	0%	(177)	(29)	0.8X	0.7X
Mean		105,188	109,341	31,722	37,919	24%	15%	3,692	5,810	2.9X	2.4X
Median		2,610	2,613	1,656	2,002	20%	21%	35	92	1.6X	1.3X
Upper Quartile		9,988	10,498	6,594	8,355	33%	27%	66	257	3.1X	2.5X

## Platforms

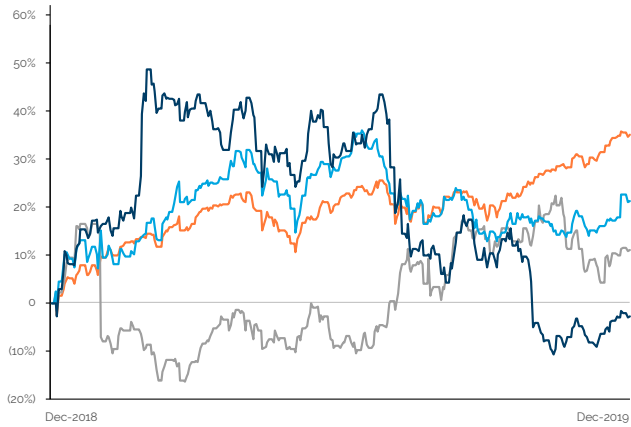
eBay	36.11	29,376	36,891	10,856	10,731	3%	-1%	3,715	3,678	3.4X	3.4X
Etsy	44.30	5,249	5,445	748	966	39%	29%	129	210	7.3X	5.6X
Farfetch	10.35	3,152	2,934	834	1,394	56%	67%	(205)	(81)	3.5X	2.1X
The RealReal	18.85	1,617	1,252	283	382	36%	35%	(88)	(69)	4.4X	3.3X
Lower Quartile		2,001	1,673	399	528	11%	6%	(176)	(78)	3.4X	2.4X
Mean		9,849	11,631	3,180	3,368	34%	33%	888	935	4.7X	3.6X
Median		4,200	4,189	791	1,180	37%	32%	21	70	4.0X	3.4X
Upper Quartile		23,345	29,030	8,351	8,396	52%	59%	2,819	2,811	6.6X	5.1X

<sup>7</sup> TTM is as of 9/31/2019, except for Stitch Fix and Chewy, which are both as of 10/31/2019. NTM is projected as of 9/31/2020 or 10/31/2020 (Stitch Fix and Chewy). Data sourced by Pitchbook.

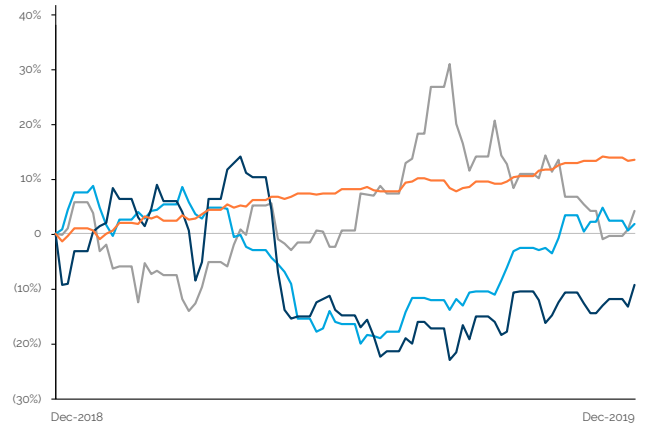
Note: For companies that completed IPO processes during 2019, full-year data is not available. As such, we created separate graphs for these companies below. Completed Brand IPO's during 2019 were Peloton Interactive and SmileDirectClub. Completed Marketplace IPO's during 2019 were Chewy, Revolve, and The RealReal.<sup>8</sup>



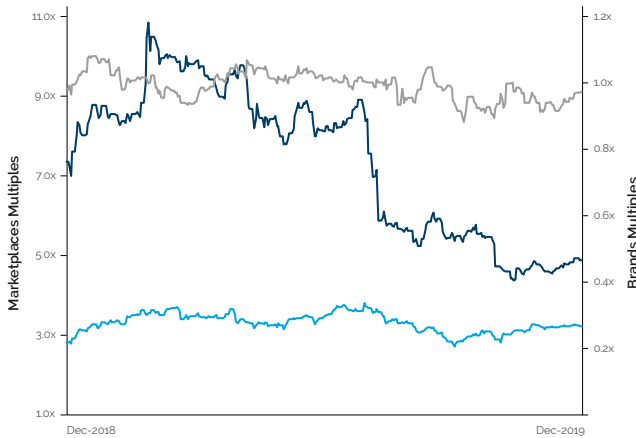
**% Change in Average Stock Prices**



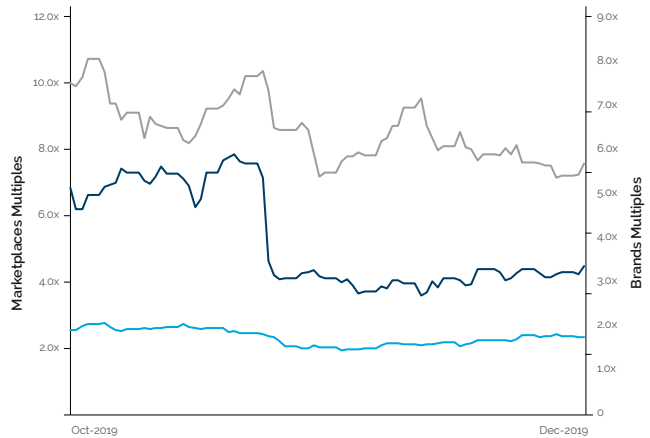
**% Change in Average Stock Prices for Recent IPOs**



**Average Revenue Multiples**



**Average Revenue Multiples for Recent IPOs**



<sup>8</sup> Revenue Multiples are based off TTM as of 9/31/2019, except for Stitch Fix and Chewy, which are both as of 10/31/2019.

## About La Honda Advisors

La Honda Advisors is an investment banking boutique focused on achieving exceptional M&A and financing outcomes for our clients. Our clients are the innovators and technology leaders who build great companies and seek more creative, nimble approaches. While based in Silicon Valley, our reach is global.

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