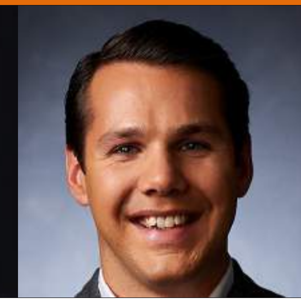
DIGITAL MARKETING SUMMIT
BY LUMA

LUMA presents our annual State of Digital Marketing, which covers our views on the market, industry trends, and the future of the ecosystem with a specific focus on digital marketing. We hope you enjoy it.

Meet the Senior LUMA Team

Terence Kawaja	Brian Andersen	Mark Greenbaum	Dick Filippini	Conor McKenna	Gayle Meyers
					
Founder & CEO	**Partner**	**Partner**	**Partner**	**Vice President**	**CMO**
Terry leads strategy, banking and content for LUMA. *He's also head comedy writer and performer.*	Brian is LUMA's marketing technology guru. *He excels at coaching both little league and big clients.*	Mark runs M&A strategy and execution for LUMA. *He's never met a term sheet he couldn't improve.*	Dick leads LUMA's mobile and gaming banking coverage. *You can find him holding court every February in Barcelona.*	Conor ties it all together, managing LUMA's junior teams. *He also wrangles the senior team together.*	Gayle runs LUMA's marketing, events, and partnerships. *Think of her as top of the LUMA funnel.*

Agenda

DIGITAL MARKETING SUMMIT BY LUMA

1. Market Update
2. Money In / Money Out
3. MarTech Trends

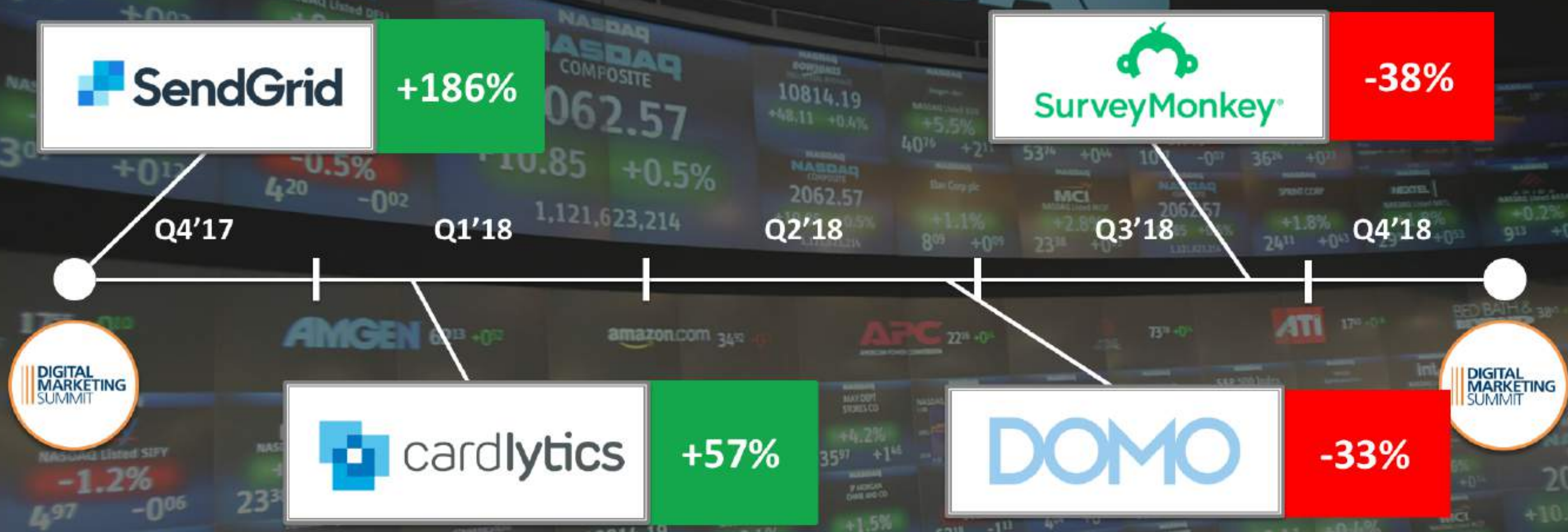
Market Update

Ad Tech & MarTech LTM Performance

Source: Pitchbook, Market Data, as of 11/12/2018

Looking at the public markets: MarTech had a good year; a very good year. The sector was up 80% with almost every company in the index up and almost all over $1B in market cap. For Ad Tech it was a very different story: down 20% with all but one company trading below $500M in market cap. You'll notice one exception that we've placed in a category of its own so it doesn't overly distort the analysis: The Trade Desk, which enjoyed continued financial success and momentum. Up 164% this year and now trading at a $5B market cap. Impressive.

The IPO Market is Healthy



And the IPO market has been healthy; we saw four new issues priced this year. All of them MarTech. The post IPO trading has been mixed with a couple down and a couple up; one of those up big: SendGrid.

The IPO Market is Healthy

DMS '17

SendGrid IPO

NYSE: SEND

- **Offering Amount**: $131 MM
- **Offer Price**: $16.00 (Priced above the expected range of $13.50 – $15.50)
- **Nov. 15th Closing Share Price:** $18.00 (+13%)
- **Market Cap**: $734 MM
- **Enterprise Value**: $595 MM
- EV / LTM Rev: 5.8x

186% Increase

DMS '18

twilio SendGrid

10/15/18: Twilio to acquire SendGrid

- **Purchase Price**: ~$2.0 BN in stock
- **Offer Price**: $36.92 per SEND share
- **1-Day Premium:** 19%
- **EV/ LTM Rev**: 12.3x

Digging deeper into SendGrid's performance – a year ago, they priced at 6x revenues or $16.00 a share. 11 months later Twilio offered to acquire them at 12x revenues or ~$36 per share that has since traded up above $40 netting an increase of 186% in a year. Thank you very much. A nice example of M&A trumping the IPO market.

Who's Next?

We thought we'd be talking about Qualtrics which was set to price this week, but SAP came in and took care of pricing over the weekend paying $8B, over 20x revenues. Thank you, very very much! Example number 2 of M&A over IPO. What's next? It's not clear – while there are a number of potential candidates, no near term pricings currently in the pipe.

M&A Remains the Primary Source of Exits

# of Transactions Over $100M								
13	11	9	11	19	12	12	12	17

Source: LUMA

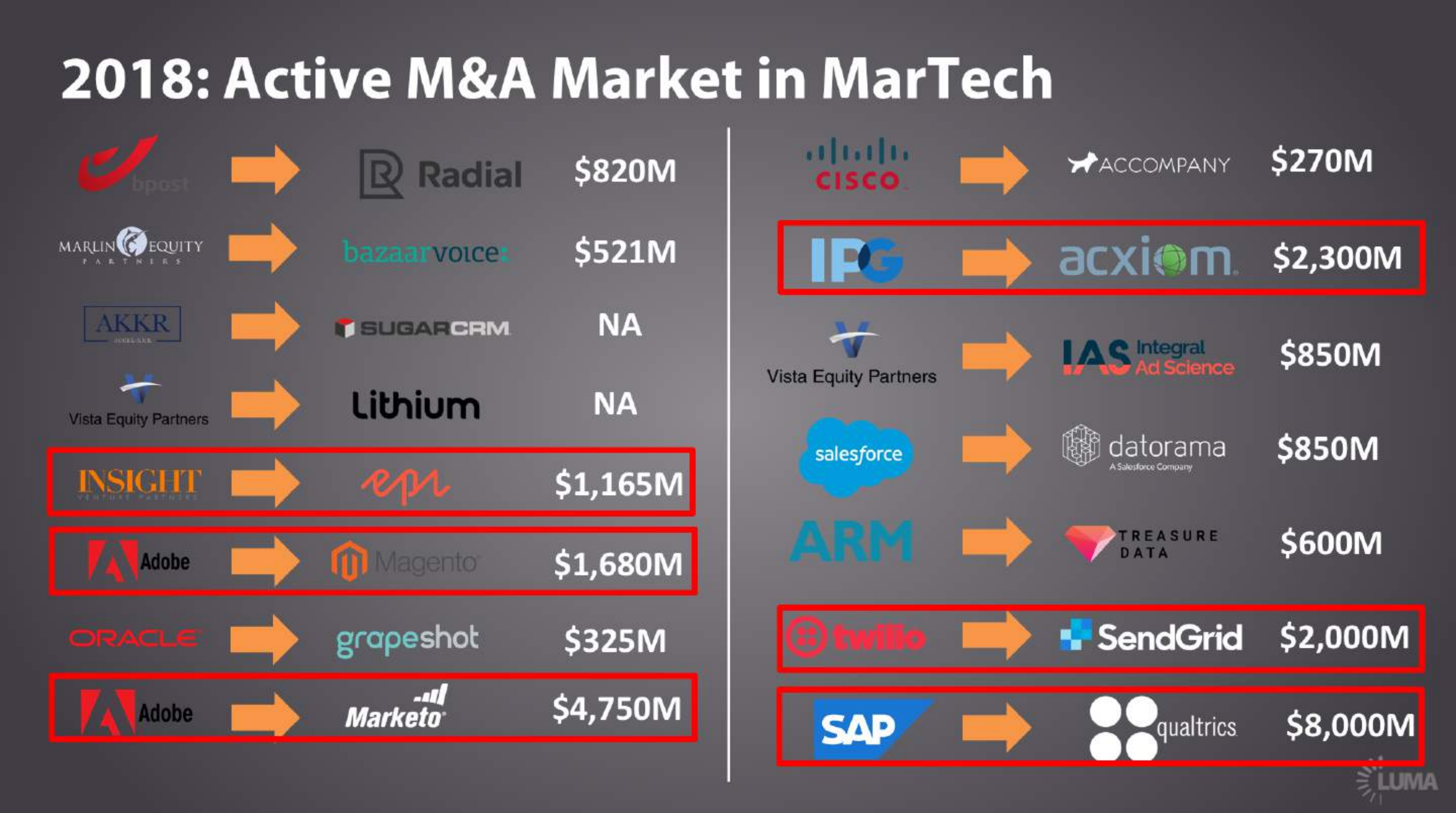
So back to M&A. Perhaps it's self serving, but it is also true: M&A remains the primary source of exits…

M&A Remains the Primary Source of Exits

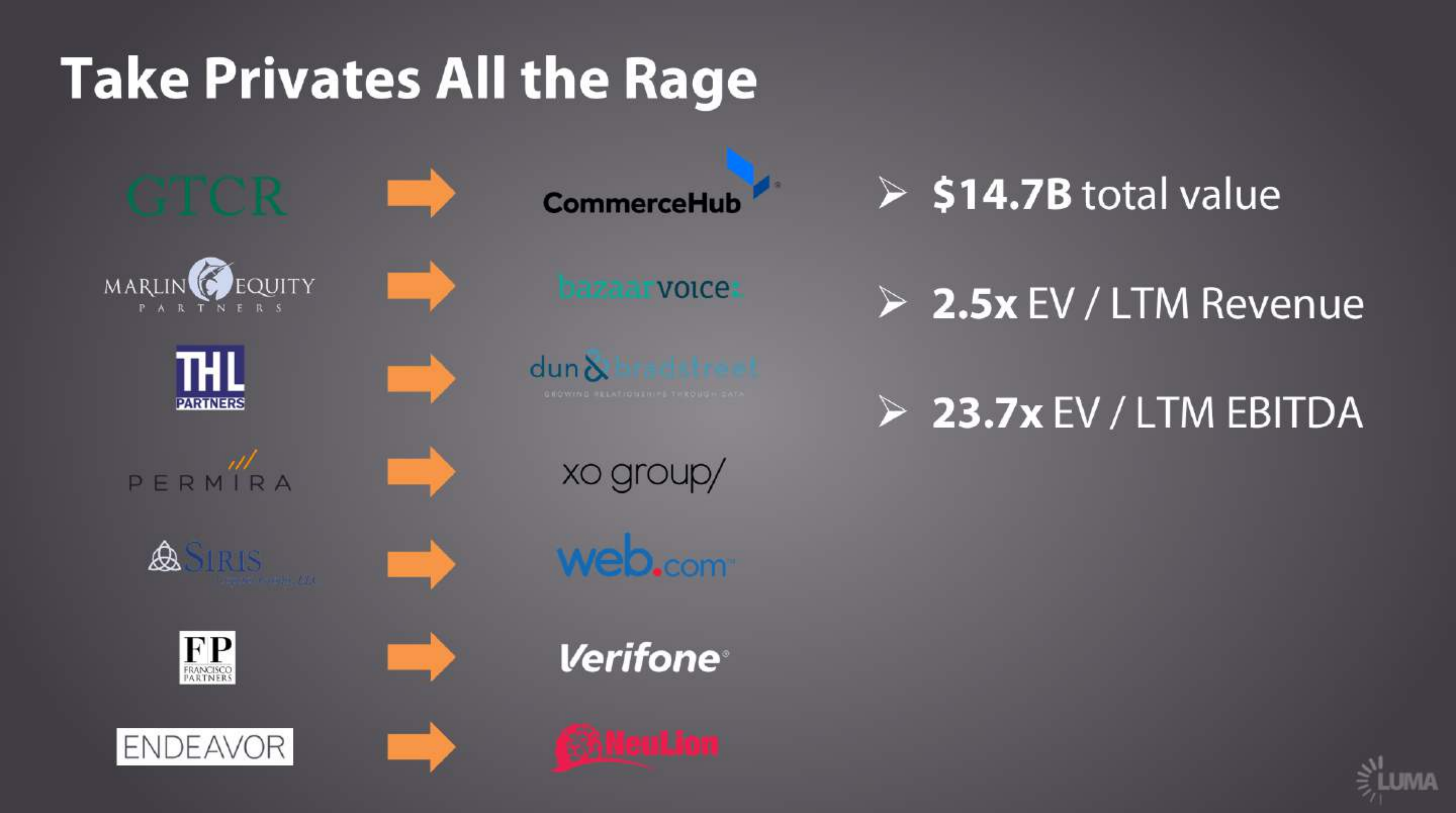
# of Transactions Over $100M								
13	11	9	11	19	12	12	12	17

Source: LUMA

And big exits at that. Last year we saw over 50 scaled deals across Ad Tech, MarTech and Digital Content.



MarTech was again the place to be. Here’s a snapshot of the big MarTech deals this year. Note the half dozen $1B+ deals!



What else is trending in MarTech? Take privates! We saw 7 public companies taken private for a total of ~$15B in deal value – and done at robust valuations averaging almost 25x EBITDA.

Case Study: Marketo

2016

Vista Equity Partners → Marketo

Deal Value:	$1,800M
Premium:	64%
EV/LTM Revenue:	8.0x

LTM Revenue:	$241M
LTM Revenue Growth:	35%
LTM EBITDA:	($50M)

2018

Adobe → Marketo

Deal Value:	$4,750M
Premium:	NA
EV/2017 Revenue:	14.8x

Strong revenue growth

Profitable

3.1x MoM

71% IRR
(25 months)

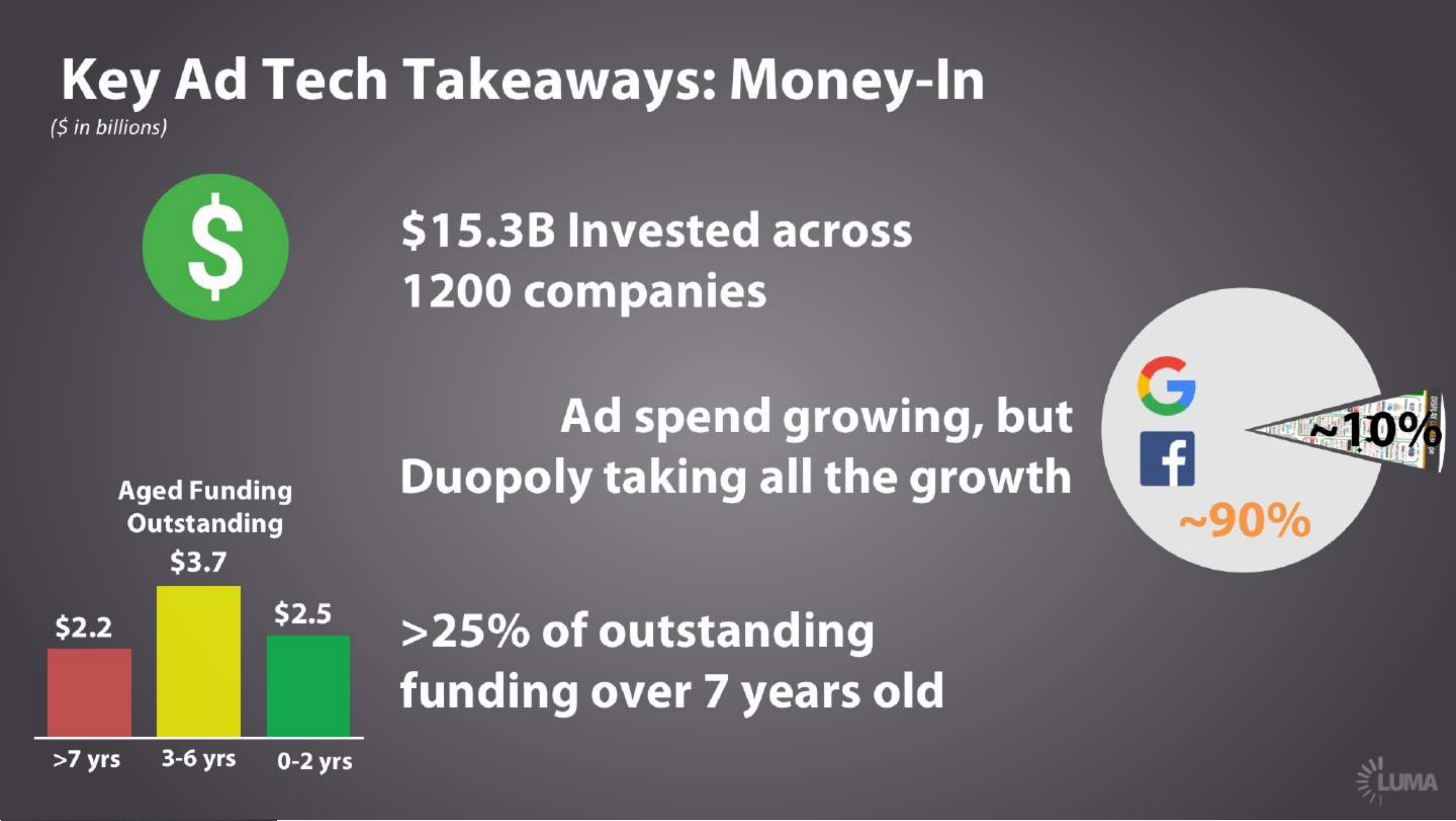
Source: Pitchbook; Adobe Company Filings; *Reuters – Vista Equity backed 2016 buyout with $375M term loan

A guess as to what's inspiring this activity: Look at Marketo. In 2016 Vista paid a big premium to take Marketo private: 8x revenues. Outbidding strategic buyers for a non-profitable company. At the time many called them crazy for overpaying. Vista deployed their operational playbook to turn the company profitable and we've heard perhaps even inflect the growth rate. Two years later Adobe stepped in to pay 15x revenues or almost $5B – an outstanding return for Vista. Thank you very much, indeed.

Money In / Money Out

October Report: Money-In / Money Out of Ad Tech

Last month we put out a report looking at investment and returns in Ad Tech which we appropriately titled Problematic I/O.



A lot of money indeed came in: $15B invested chasing the huge opportunity in digital advertising. And they weren't wrong. Today it's a $100B market and growing. The problem is that the duopoly is eating it all. So the invested capital is getting long in the tooth with over a quarter of it invested 7 – 10 years ago.

Key Ad Tech Takeaways: Money-Out

($ in billions)

Public markets have not been kind to Ad Tech (besides TTD)

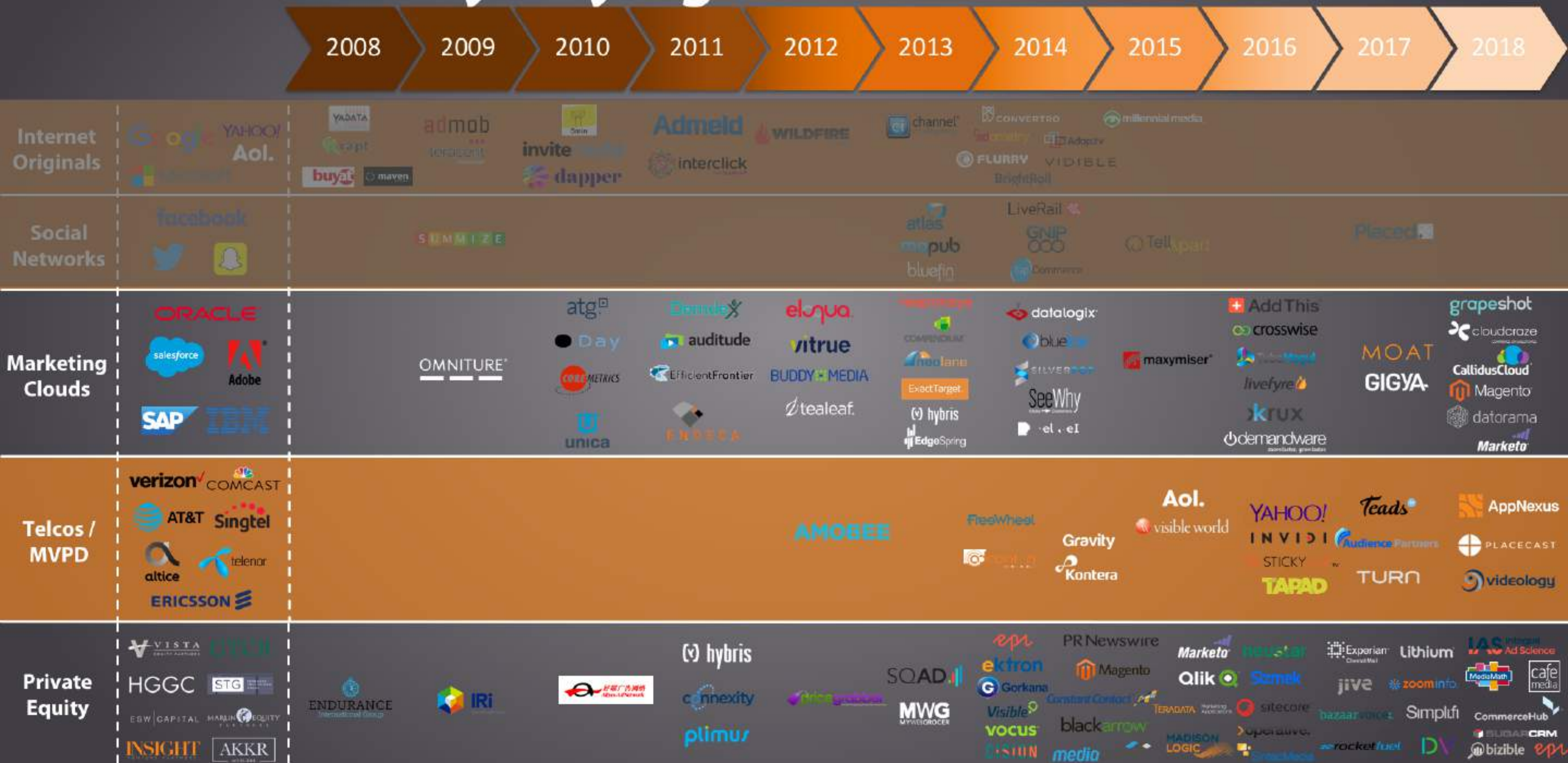
M&A remains the primary source of exits

1,900 Deals
72 over $100MM

The theoretical list of buyers is shrinking

The public markets have been unfriendly to AdTech (unless you're The Trade Desk), so M&A has been the primary source of exits. But, the list of potential buyers is shrinking.

Who's Actually Buying Ad Tech?

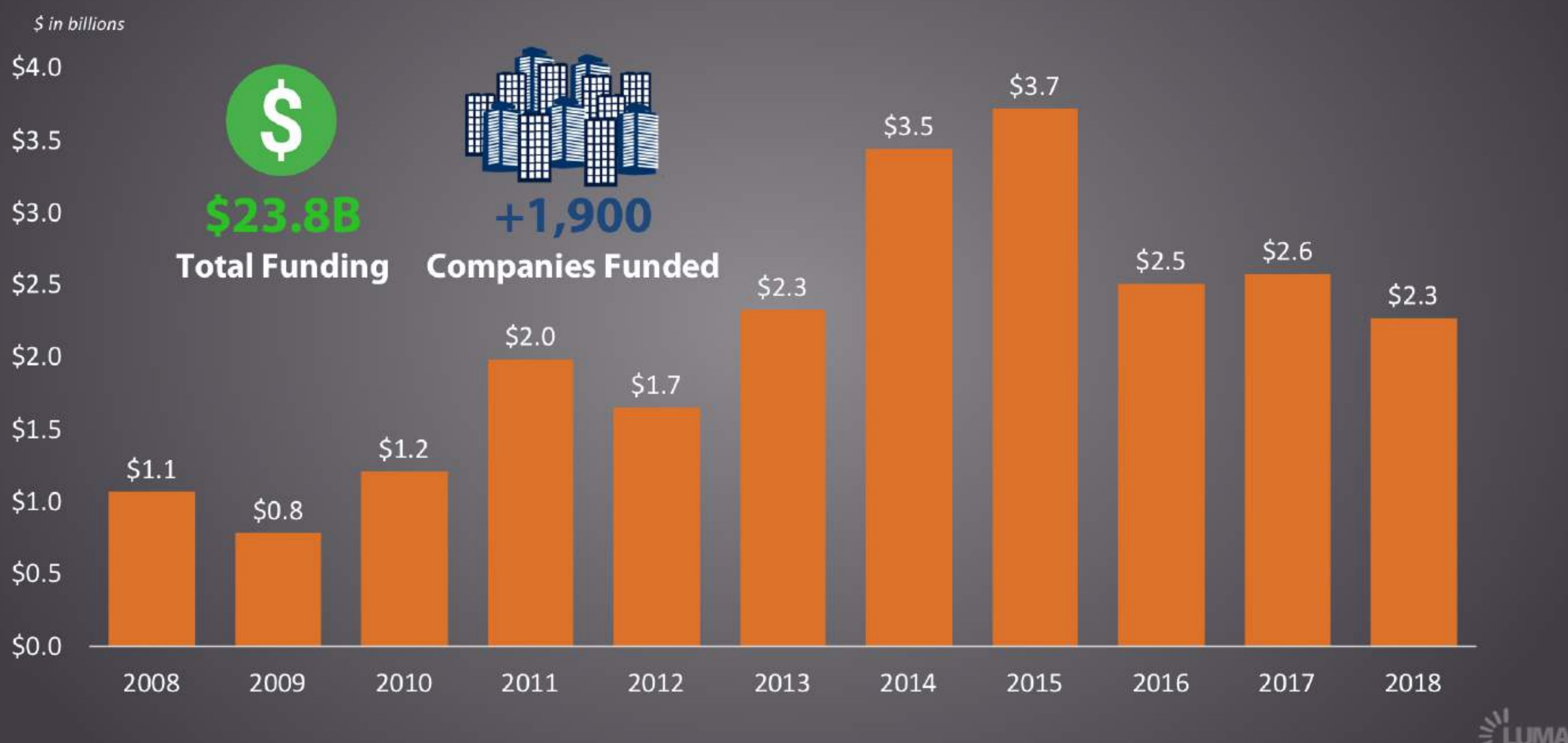


Historically, Internet Originals, Social Networks and Telcos have been the most active buyers of Ad Tech. However, as the top two categories have built out their stacks and have increasingly shown concern about regulatory oversight, we've been left with largely a single category, buyer-friendly market for Ad Tech. We expect the resulting consolidation to be quite painful for the remaining companies.

Tale of Two Cities: Money-In/Money Out of MarTech

So that was Ad Tech. Looking at MarTech tells a tale of two cities indeed.

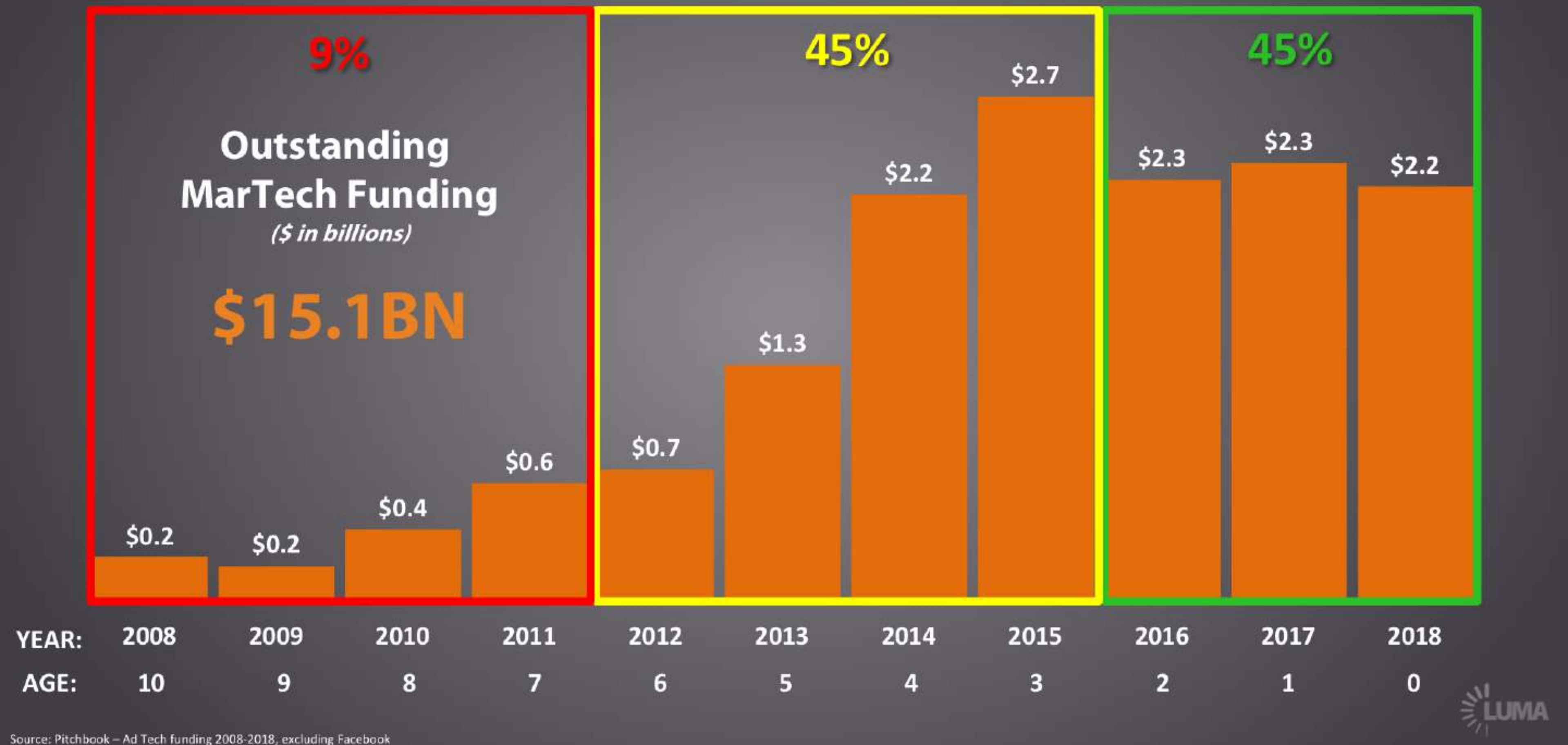
Money In: MarTech VC Investments 2008-2018



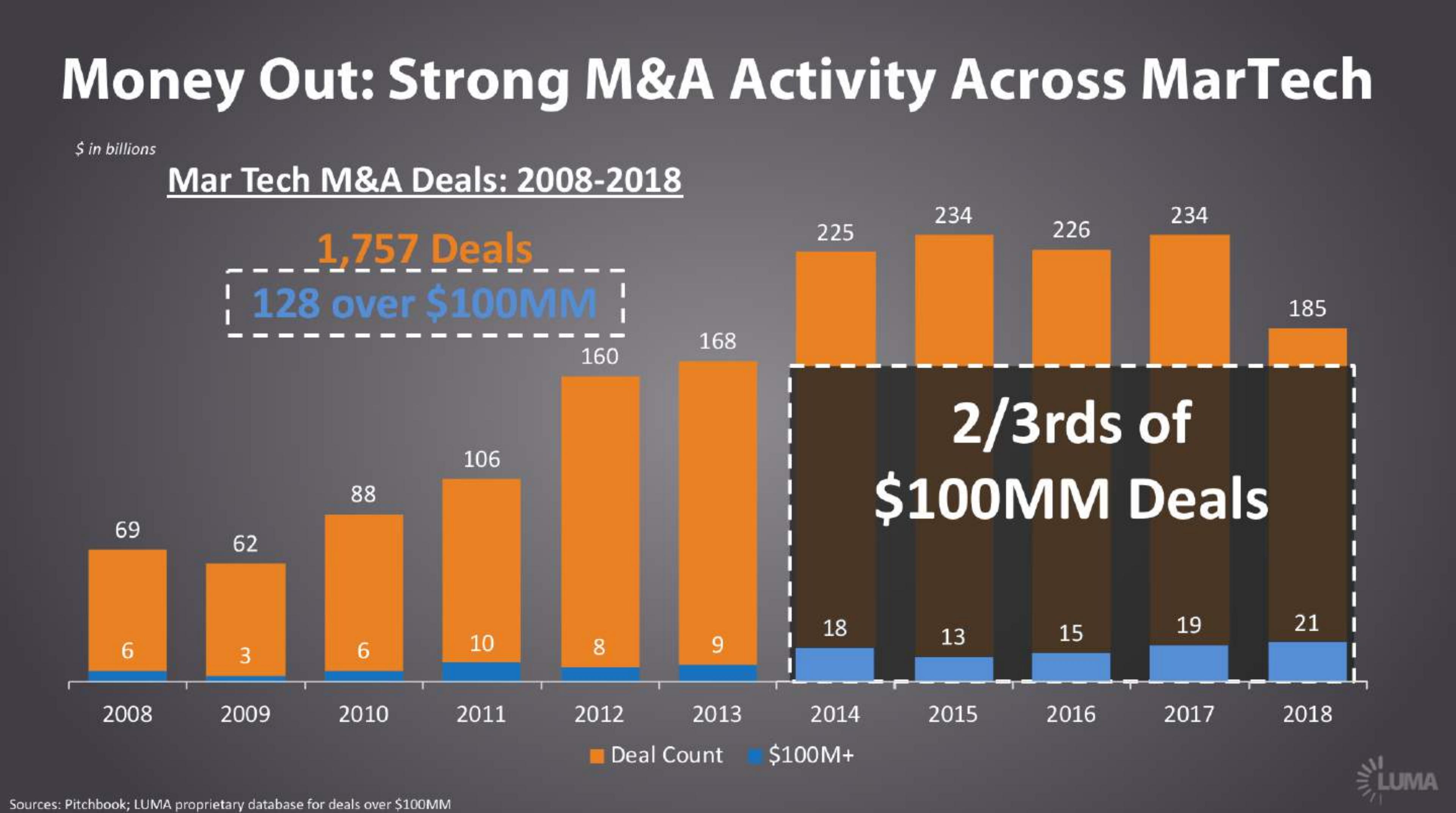
Source: Pitchbook

MarTech has seen huge investment: $24B into almost 2,000 companies.

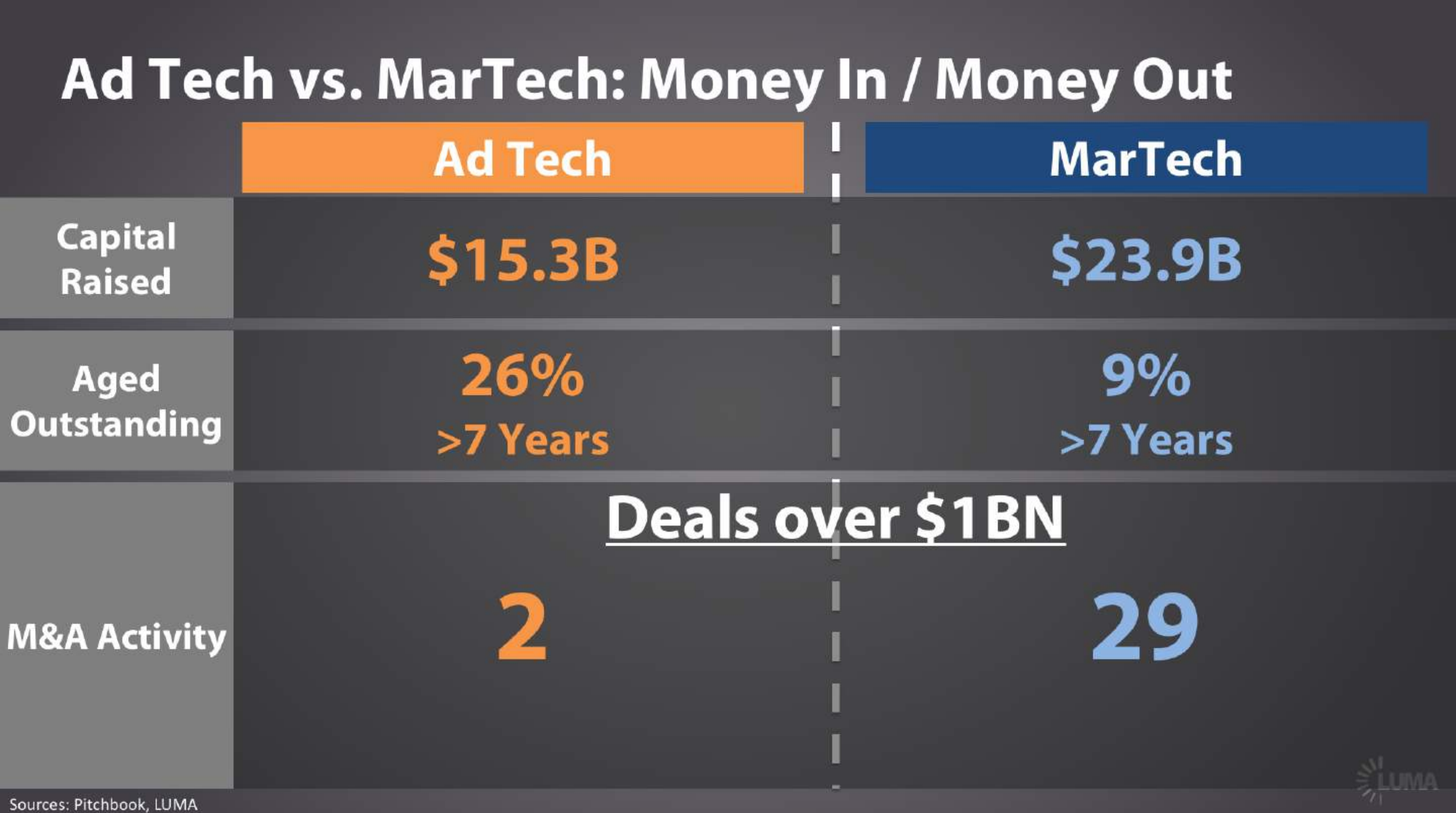
Aging of Outstanding VC Investments in MarTech



Unlike Ad Tech, 90% of that investment was within the last 6 years.



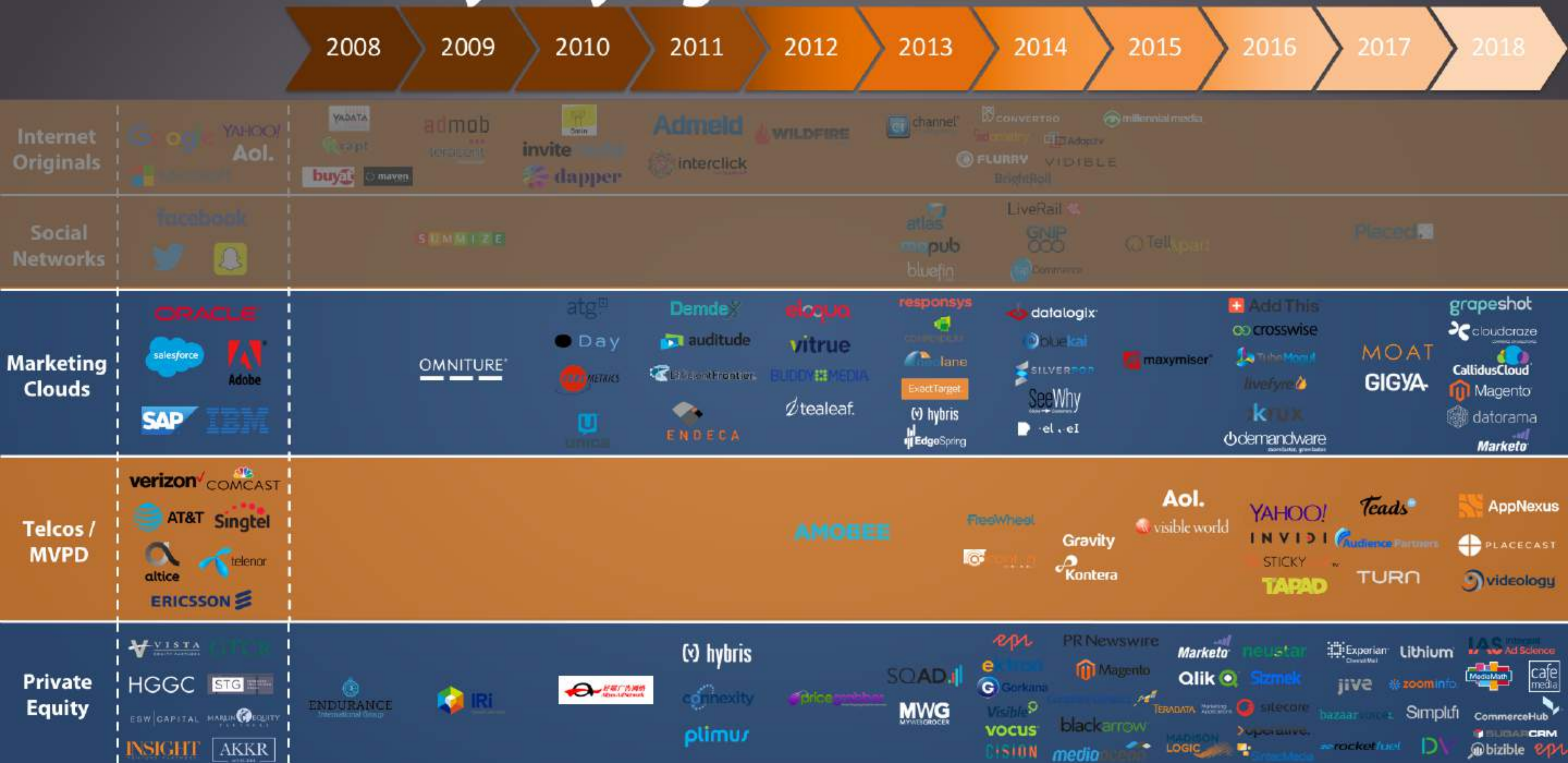
M&A has also been the source of most exits, and recently, of many large exits with 2/3rds of the sizable deals done in the last 5 years.



So in summary: 1) There has been big investment into both categories. 2) The Ad Tech dollars are getting stale, leading to increasingly anxious investors. 3) Big Ticket M&A has been almost all in MarTech.

Who's Actually Buying Ad Tech & MarTech?

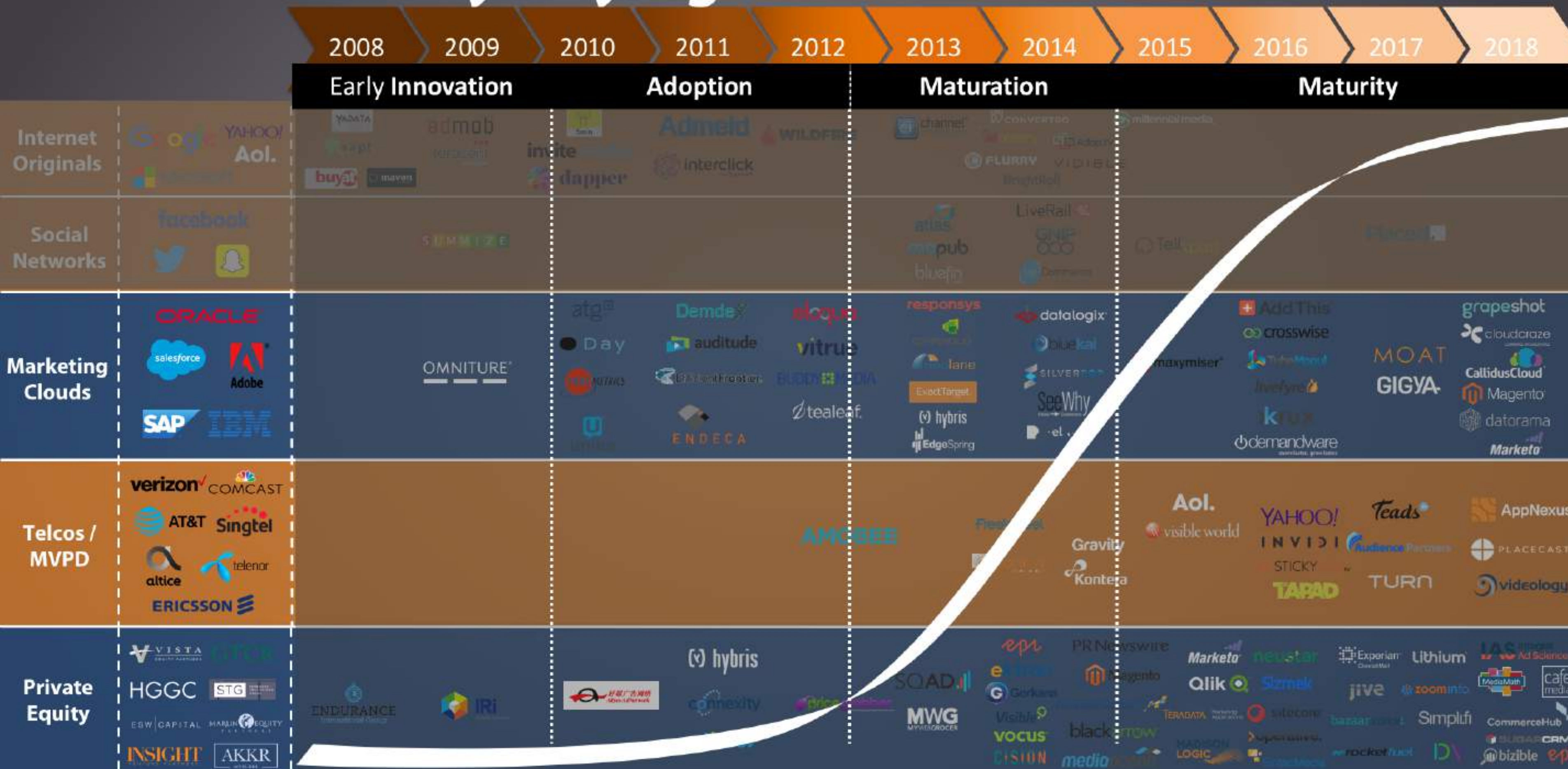
Ad Tech
MarTech



Why? Let's review that buyer universe. While Ad Tech is facing a shrinking, buyer-friendly marketplace; MarTech continues to enjoy robust strategic interest from the Marketing Clouds and increasingly, competitive interest from Private Equity.

Who's Actually Buying Ad Tech & MarTech?

Ad Tech
MarTech



This makes for good exit dynamics which is to be expected given the natural maturity of the sector and is one of the reasons we remain so bullish on the category.

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MarTech Trends

Overarching Goals of Marketers Haven't Changed

In every State of Digital Marketing over the past four years, we have started each presentation reminding ourselves of every marker's goal, which is to drive more revenues at the lowest cost. How do they do this? By optimizing the customer experience with the right message, at the right time, to the right person. These goals have not changed.

Key MarTech Trends – DMS '15 to DMS '17

Looking back over the years at how MarTech vendors have been enabling this goal, we've seen a steady and logical progression. In 2015, we noted how predictive analytics was enabling the right message at the right time. 2016 seemed to be the year of Identity, where the industry realized that the identity layer was crucial to delivering the message to the right person across channels and devices. Last year, we noted how the CDP category had emerged to capture the ability to extract the data from the siloed marketing systems and orchestrating the messages across all channels.

The Jury is Still Out on CDPs


FORRESTER®

For B2C Marketers, Customer Data Platforms Overpromise And Underdeliver

Simplicity Isn't Enough to Solve Complex Marketing Challenges

Forrester recently released a report claiming that "Customer Data Platforms Overpromise and Underdeliver," which serves as a reminder that the CDP category is still very nascent.

But Investors Seem to Believe

~$400M

Invested in Past 7 Quarters

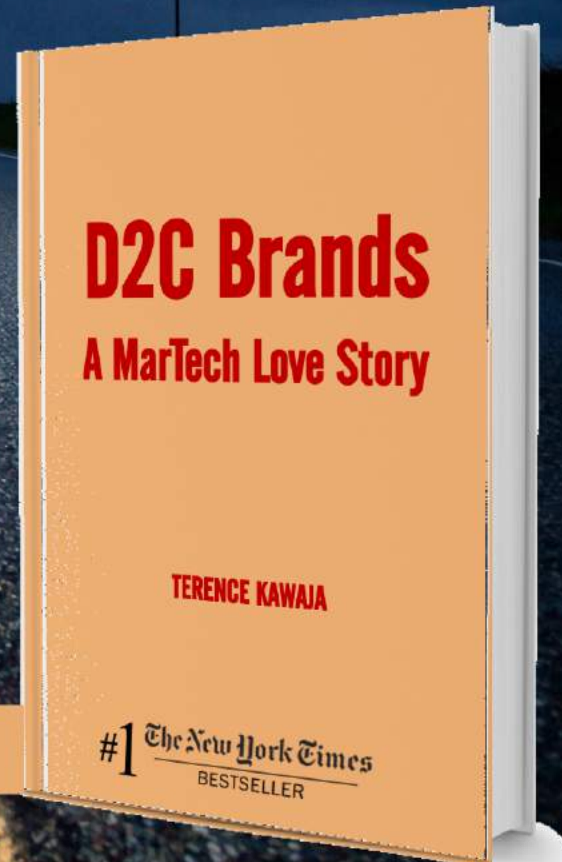
Venture Investments 2017-2018 YTD:

Company	Date	Amount	Lead Investor
sessionm	Jul 2018	$24M	salesforce ventures
Simon	Jul 2018	$20M	Polaris Partners
bouncex	May 2018	$37M	BV
ZAIUS	Apr 2018	$30M	INSIGHT
Lytics	Apr 2018	$14M	TWO SIGMA VENTURES
ACTIONIQ	Oct 2017	$30M	ANDREESSEN HOROWITZ
amperity	Oct 2017	$28M	TIGER
BLUECORE	Oct 2017	$35M	NORWEST VENTURE PARTNERS
mparticle	Sep 2017	$35M	harmonypartners
Amplero	Aug 2017	$18M	GREYCROFT
Segment	Jul 2017	$64M	G/ Y Combinator
smarterHQ	Jan 2017	$13M	SPRING LAKE
TEALIUM	Feb 2017	NA	citi VENTURES

But investors believe! With $400M invested since the beginning of 2017, the CDP category continues to grow. Like these leading investors, we at LUMA are bullish on the category. We think that CDPs will prove to be a foundational technology to drive digital marketing.

What We See Looking Forward

1. Marketing Orchestration
2. Data & Identity Management
3. Performance Advertising
4. Content Marketing
5. B2B Marketing / ABM
6. Artificial Intelligence
7. Convergent TV
8. Audio / Voice
9. **D2C Brands**



This year more than others, we haven't seen a major shift in marketing technology trends. These are the trends we remain excited about, particularly Direct-to-Consumer Brands. This category of marketers is effectively utilizing advanced technologies and techniques (such as those represented in trends 1-8) to successfully disrupt large, incumbent brands. So while these hot consumer names (Peleton, Tesla, Allbirds, etc.) are clearly the protagonist in the story, the real hero is MarTech.

The ANA showed that in 2016, over 50% of Fortune 500 companies declined in revenue. Marketers know how to spend the money, but they just don't know how to convert the money.

D2C Rapidly Taking Significant Market Share

CATEGORY	RAZORS	SHOES	MATTRESSES
D2C BRAND MARKET SHARE	12%	15%	20%
ILLUSTRATIVE COMPANIES	DOLLAR SHAVE CLUB HARRY'S	allbirds M.GEMI	Casper TUFT&NEEDLE
CATEGORY INCUMBENTS	Gillette	adidas	Sealy

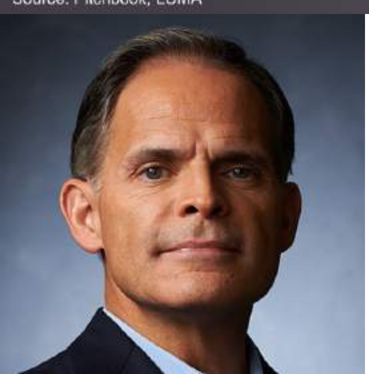
Source: Fox Business, IAB, Axios

Relatively young startups with minimal funding are garnering double-digit market shares against category incumbents who have been building brand equity, sometimes for decades. This is unprecedented in the marketing world!

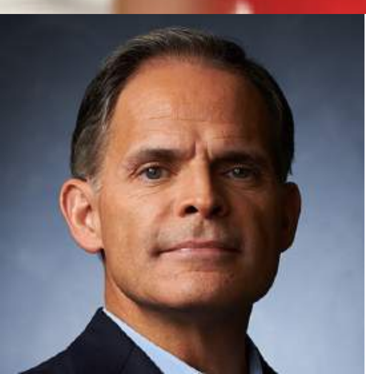
D2C Brands Are Rapidly Proliferating

And it's rapidly proliferating. We have accounted for over 400 brands, which span across nearly all verticals.

This is not just an American phenomenon. D2C brands are global. Or better said, globally local, with brands sprouting up across North America, South America, Europe and Asia.



And this is no longer a tech boy's club. We are seeing meaningful female leadership in D2C, with over 30% of D2C brands having female CEOs and founders. That's what we call a good start!



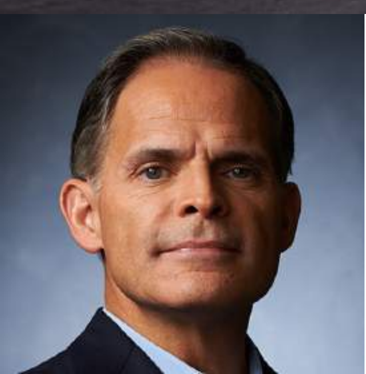
This is more than just some passing fad or internet meme.

D2C Brands More Like Each Other Than Vertical

	Footwear	Luggage	Fitness	Eyewear	Razors
Traditional Brands	COLE HAAN	Samsonite	Life Fitness	sunglass hut	Gillette
D2C Brands	allbirds	AWAY	PELOTON	WARBY PARKER	HARRY'S

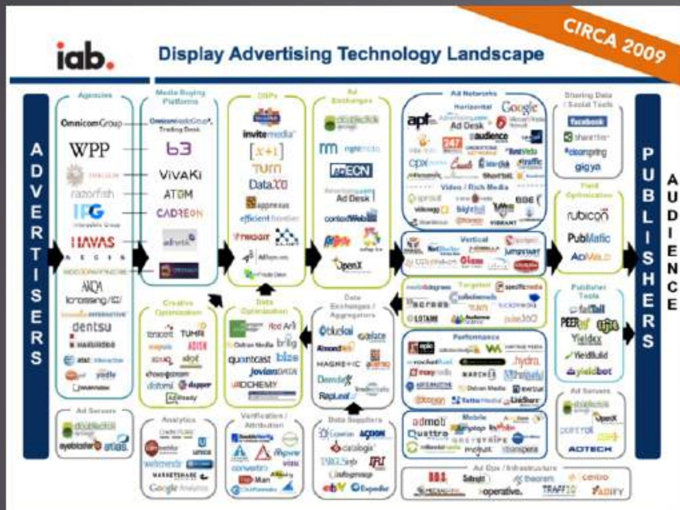
D2C Brands have more in common with each other than with their erstwhile vertical competitors. Allbirds sells shoes like Cole Haan and Warby Parker sells sunglasses like Sunglass Hut. But from their design intuition, the go-to-market strategy, the back end technology and the media strategies, these companies are fundamentally very different from the competition and similar to one another.

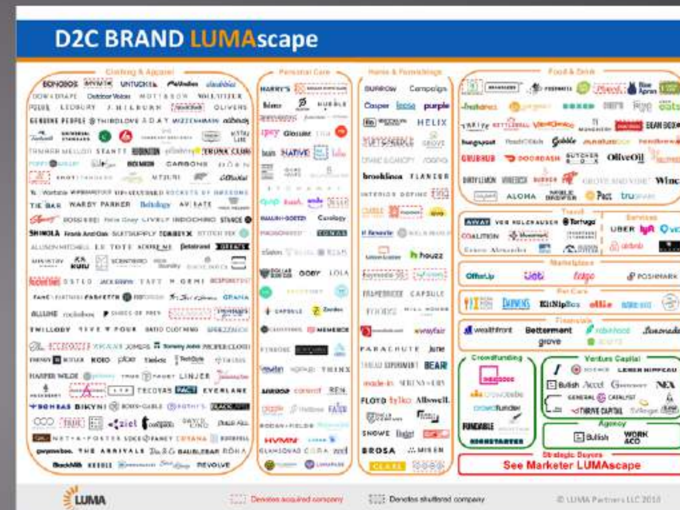
D2C Not the First Successful Challenger Story



D2C is not the first successful challenger story in marketing. We have had "David and Goliath" narratives in enterprise marketing, consumer marketing, and even in investment banking.

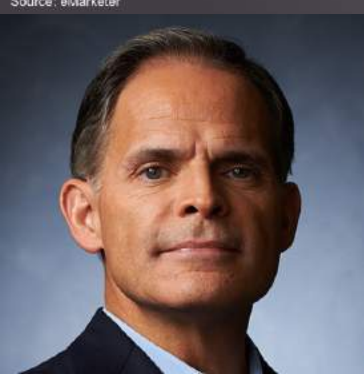
D2C in 2018 Feels Like Programmatic in 2009





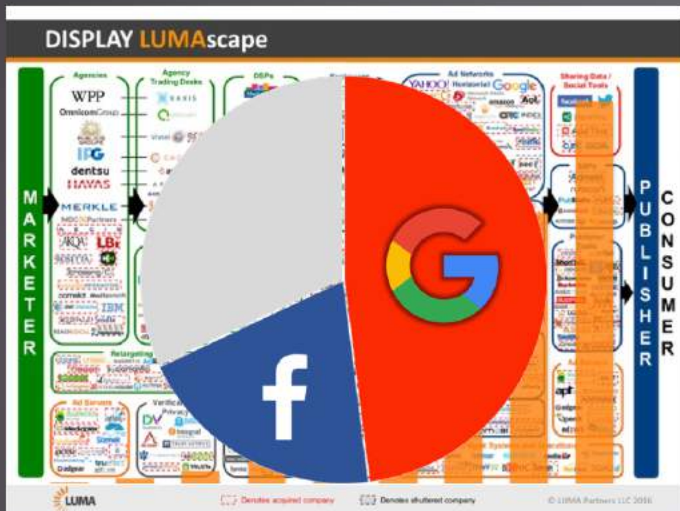
- **Rapid new company formation…............................... Ditto**
- **Fragmented ecosystem….. Ditto**
- **Rampant venture funding…..Ditto**
- **Nascent consolidation….. Ditto**
- **Poised for huge growth…..Ditto**

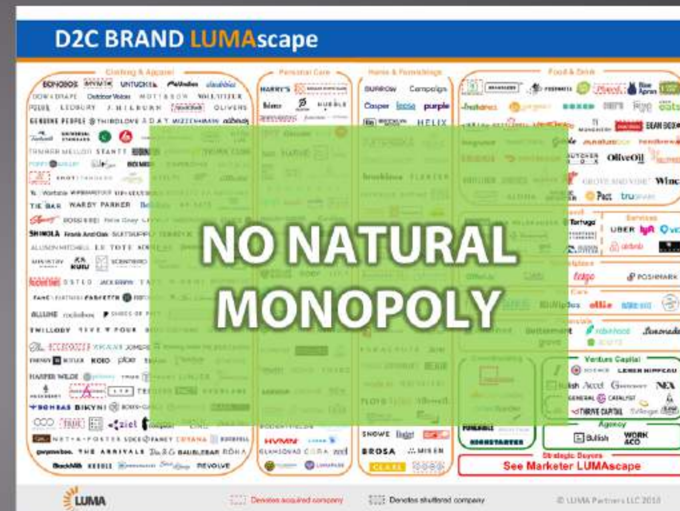
Source: eMarketer



D2C in 2018 feels like programmatic in 2009 where that enterprise sector had rapid new company formation, a fragmented ecosystem, rampant venture funding, nascent consolidation and was poised for huge growth. In 2018, we are seeing the same phenomenon with D2C brands.

D2C in 2018 Feels Like Programmatic in 2009





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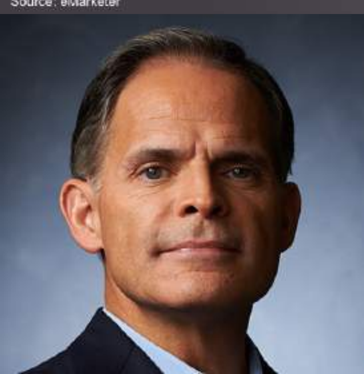
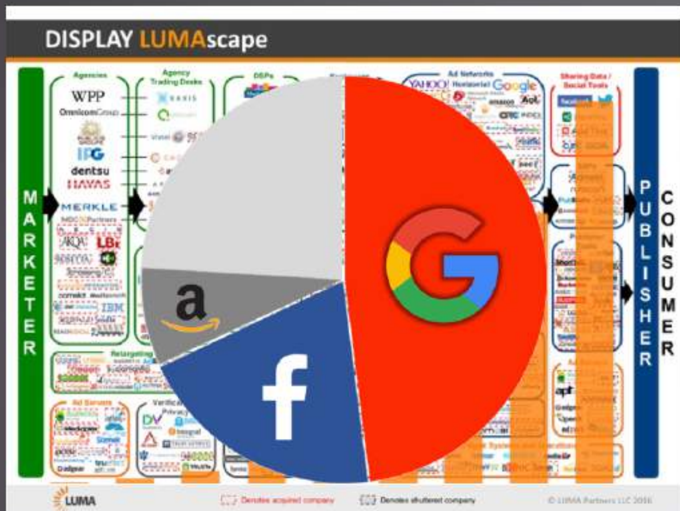


With one major difference. As programmatic spend thrived over the last 10 years, the duopoly of Google and Facebook has taken a majority of the growth. In D2C, however, there is no natural monopoly.

D2C in 2018 Feels Like Programmatic in 2009



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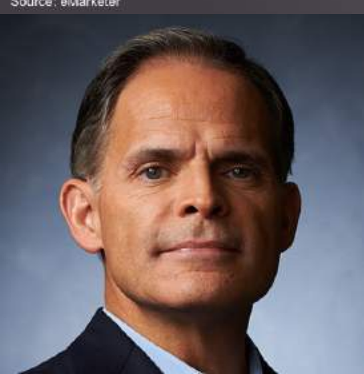

Amazon is a double edged sword for D2C. On one hand, Amazon private label products offer competition to D2C brands operating in those verticals. For most of D2C brands though, Amazon provides the necessary back end capabilities to allow these brands to focus on their front ends. Net-net, Amazon is a huge boon to the D2C proliferation.

The Digital Giants Are the Biggest D2C Brands

Turns out, the digital giants are actually the biggest D2C brands. If you want to know ***your*** *favorite D2C brands; simply open your phone. These brands are all sitting right there on the home screen.*

Conditions Leading to the D2C Phenomenon

AVAILABILITY OF MONEY and TECH

- Robust VC funding
- iPhone / smartphone app
- AWS for more efficient computing
- Shopify, Magento, Amazon simplified e-commerce
- Google / FB / LUMAscape media capabilities and inventory

+

CONSUMER OPENNESS TO NEW BRANDS

- Credibility of online reviews
- Fulfillment convenience
- Brand loyalty not as relevant

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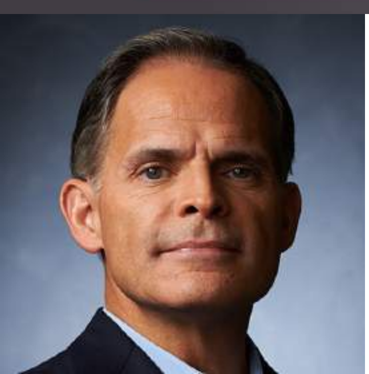

There are certain conditions precedent that led to this phenomenon. The first of these were the availability of money & technology. Without the development of the app ecosystem, AWS for computing, Shopify and Amazon for simplified e-commerce, there is no D2C. The second, and more interesting condition, is a new consumer openness to try new brands. Brand loyalty is not as relevant as it once was, and for legacy brands this should be terrifying.

This Playbook Has Been Run Before

Gaming

Profit and Loss Statement

($MM)

	FY 2010
Sales	$1,000
COGS, Other Expenses	100
Marketing	450
Total Costs	550
PROFIT	**$450**

CONCLUSION:

Supercell is a great gaming ^ company!

and marketing

*This playbook has been run before – consider mobile gaming where the game marketers were customer acquisition machines. Their P&Ls featured huge sales, minimal direct costs, large marketing costs and massive profits. If you were to conclude that Supercell is solely a great gaming company, you would be wrong. Supercell is a great gaming **and marketing** company!*

This Playbook Has Been Run Before

Gaming	Apps	D2C
King	Spotify	allbirds
MachineZone	UBER	Casper
SUPERCELL	wish	WARBY PARKER

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We then saw this expand into the broader app market, and then into the D2C sector.

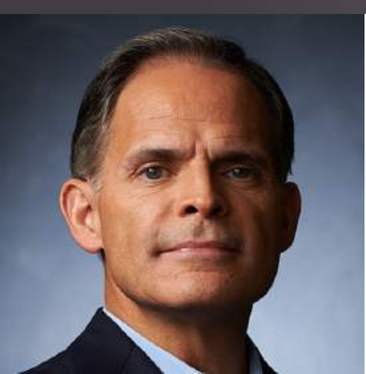
Natural Gestation of Performance Marketing

	Gaming	Apps	D2C
Verticals	One	Multiple	All
Demos	One	Broad	Everyone
Channels	Digital-to-Digital	Digital-to-Digital	Omnichannel
Data	Closed Loop	Closed Loop	Closed Loop

This is really the natural gestation of performance marketing. Gaming was pretty straightforward with one vertical, one demo, and a channel that was digital-to-digital, so that the data was in a closed loop. With apps, marketing expanded to multiple verticals, a broader demo, but was still digital-to-digital, and a closed loop. Now D2C marketers have to target all verticals, all demos and do so across channels (you've seen Peleton bus shelter ads and Casper 30 second spots). The one constant is the closed loop on data, which is the most important aspect for these companies.

LUMA's 7 DNA Traits of D2C Brands

1) **Digital native; mobile centric**
2) **Focus on product design / UX**
3) **Disintermediation** (agencies, retailers, etc.)
4) **Identity-focused customer relationship**
5) **Performance-oriented media spend**
6) **Content marketing for brand storytelling**
7) **Growth-focused marketing talent**



So, what makes these D2C brands different? Here are our 7 DNA traits of D2C. They are: 1) digital native, mobile centric, 2) focus on product design, 3) disintermediate the middlemen, 4) use identity focused CRM, 5) have a performance oriented approach to marketing, 6) place emphasis on content marketing to tell their story and 7) deploy marketing professionals with different talents than traditional brand marketers.

Digital Native; Mobile Centric

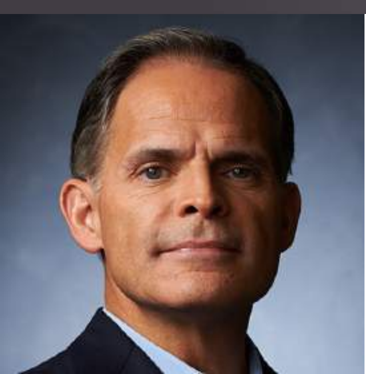
WARBY PARKER

D2C brands have leveraged digital from the outset (even though they are often physical products) and focused their attention on optimizing mobile. In fact, many are garnering over 50% of new customers through mobile channels.

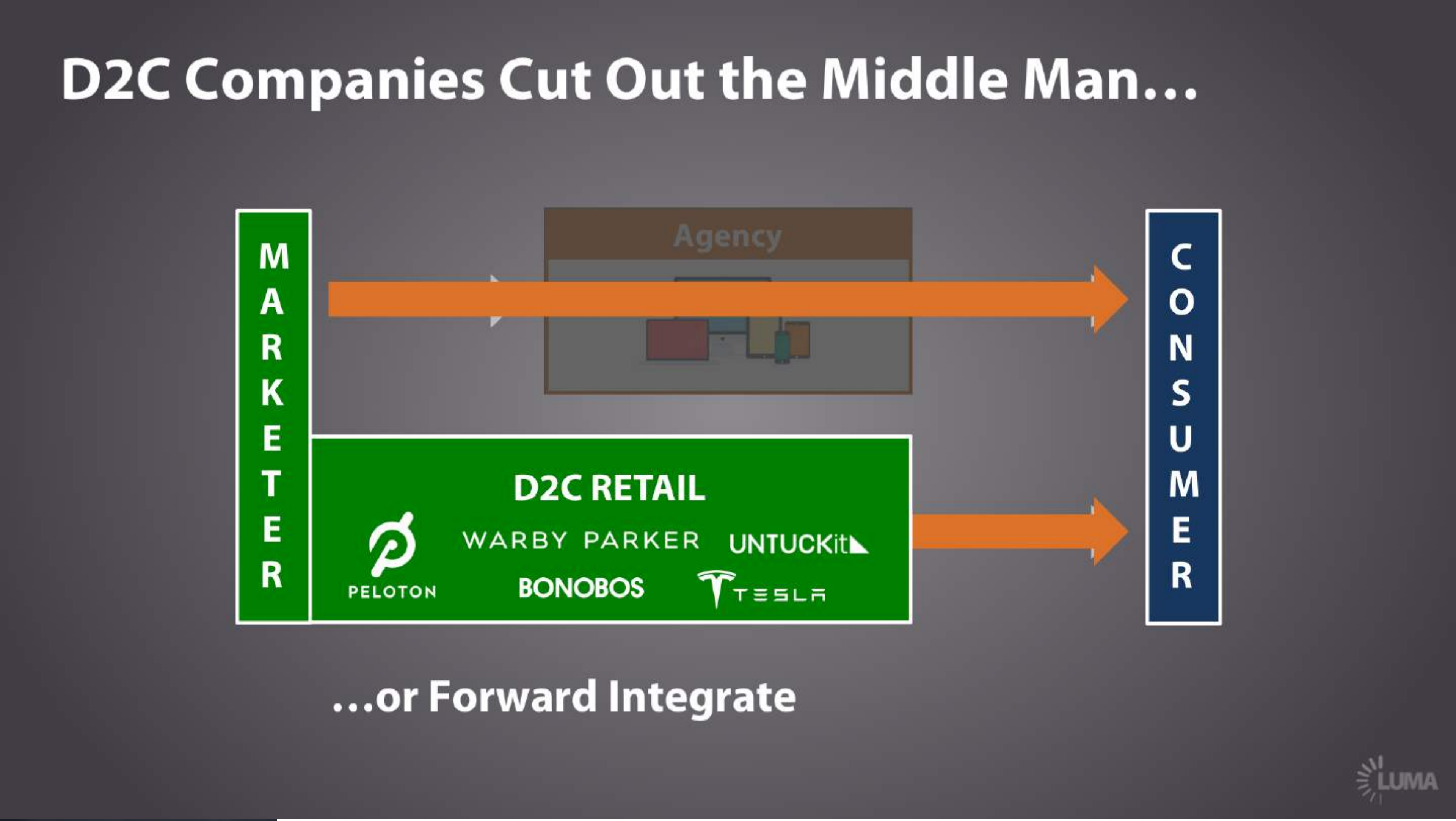
D2C Design: The Apple-ification of Everything

Over the years, Apple has shown intense focus on product design and user experience. Led by Jony Ive, one of the greatest industrial designers in the world, this design focus has become one of Apple's greatest strengths. With so much great design in D2C products and focus on user experience, it seems like everything is designed by Jony Ive.

D2C Companies Cut Out the Middle Man…

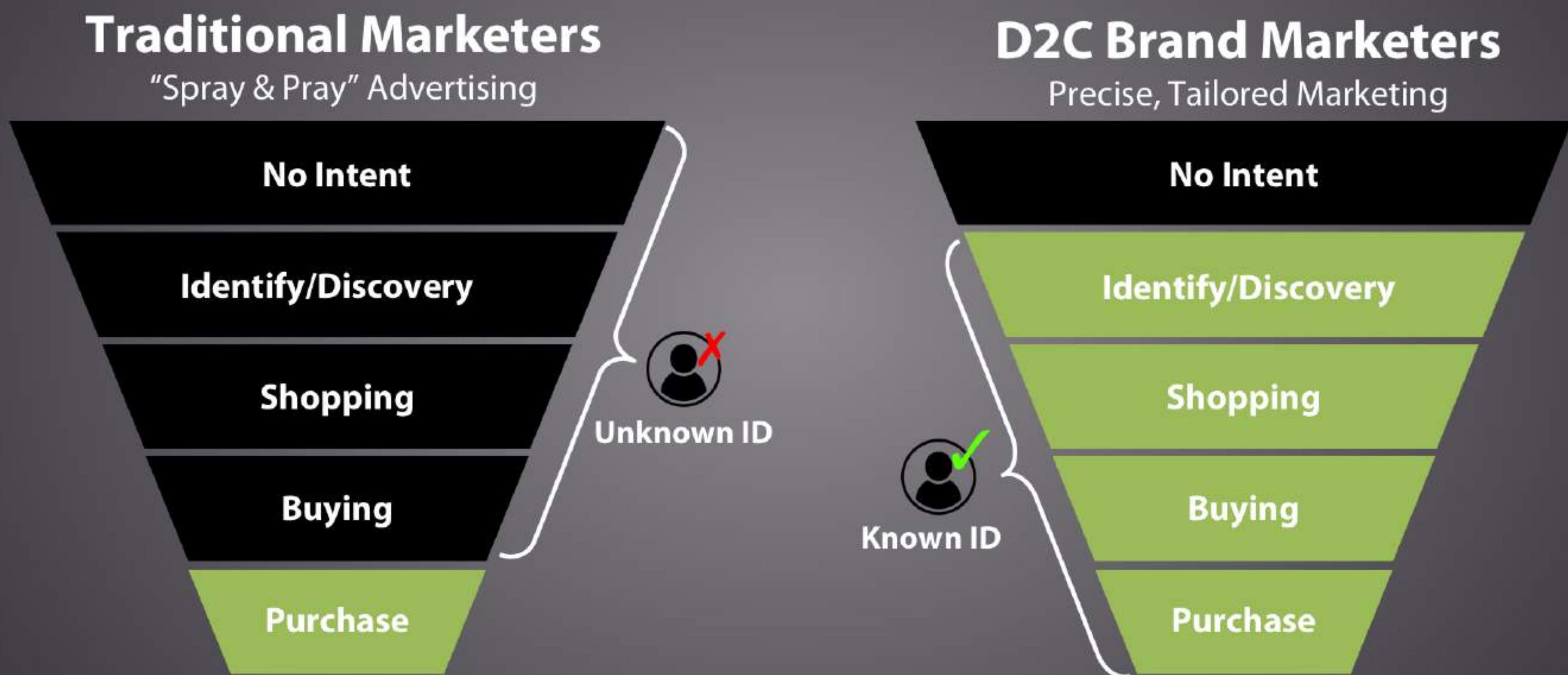


Probably the most signature trait of D2C brands is their ability to disintermediate traditional production, marketing, and sales channels. Rather than take on the cost associated with legacy supply chains, D2C brands are leveraging technology to bypass wholesalers, retailers and agencies to have direct access to their consumers and own the customer relationship.



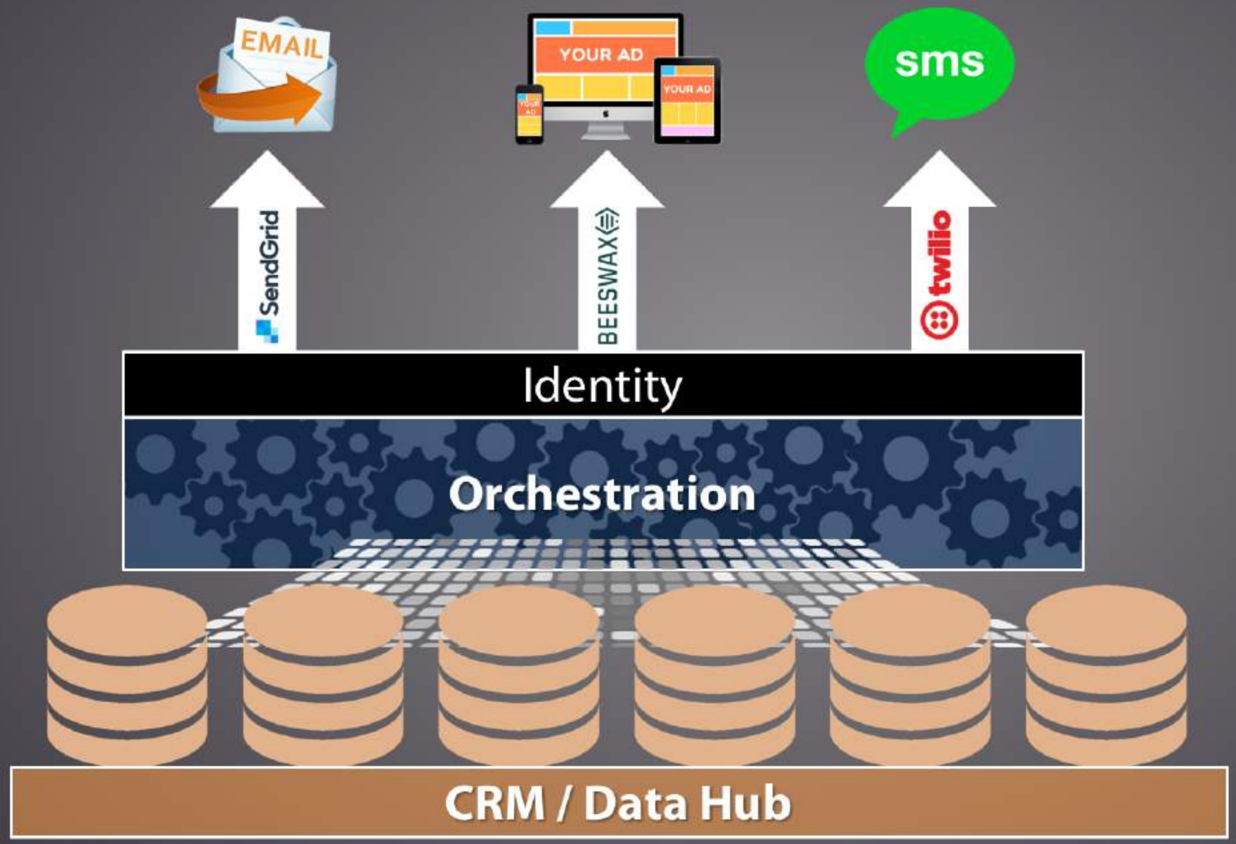
Some D2C brands are also forward integrating into retail to get even closer to the consumer and increase brand awareness.

Focus on Identity For Tailored Marketing



Traditional marketers often aren't able to identify their consumers until they become purchasers. This forces them to utilize "spray & pray" advertising using unknown, cookie-based IDs to target demos rather than an individuals. Meanwhile, D2C brands place identity at the core of their marketing strategy, using 1st party data to identify consumers further up the purchasing funnel, allowing them to tailor messaging to consumers on an individual level.

Identity is Key to Marketing Orchestration



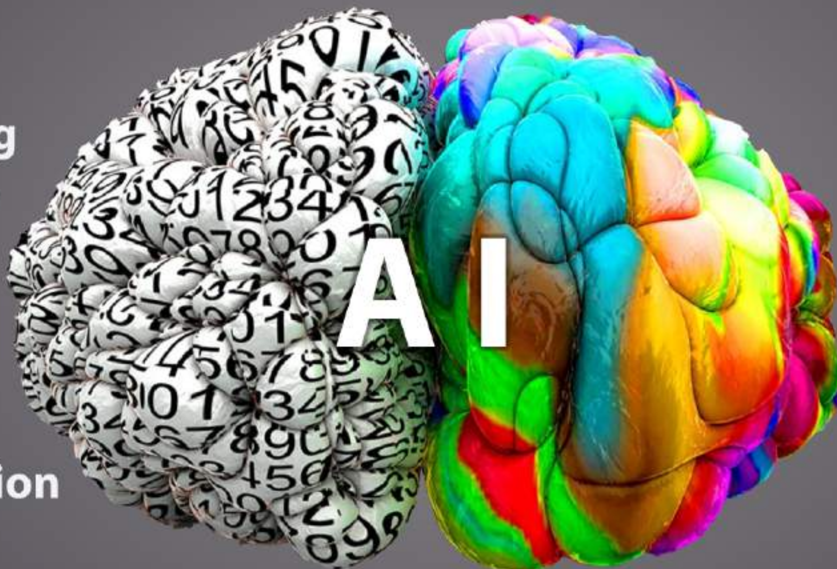
Utilizing:

- Identity
- Data
- AI

Identity is the key ingredient for creating marketing orchestration across all channels. D2C brands have recognized this and place emphasis on utilizing identity capabilities, along with data and AI, to create consistent and effective marketing across channels.

Numerous AI Applications to Marketing

Propensity Modeling
Predictive Analytics
Media Buying
Ad Targeting
Lead Scoring
Dynamic Pricing
Marketing Automation



Ad Copy Generation
Automated Content
Content Curation
Chat Bots
Voice Search
Web Personalization

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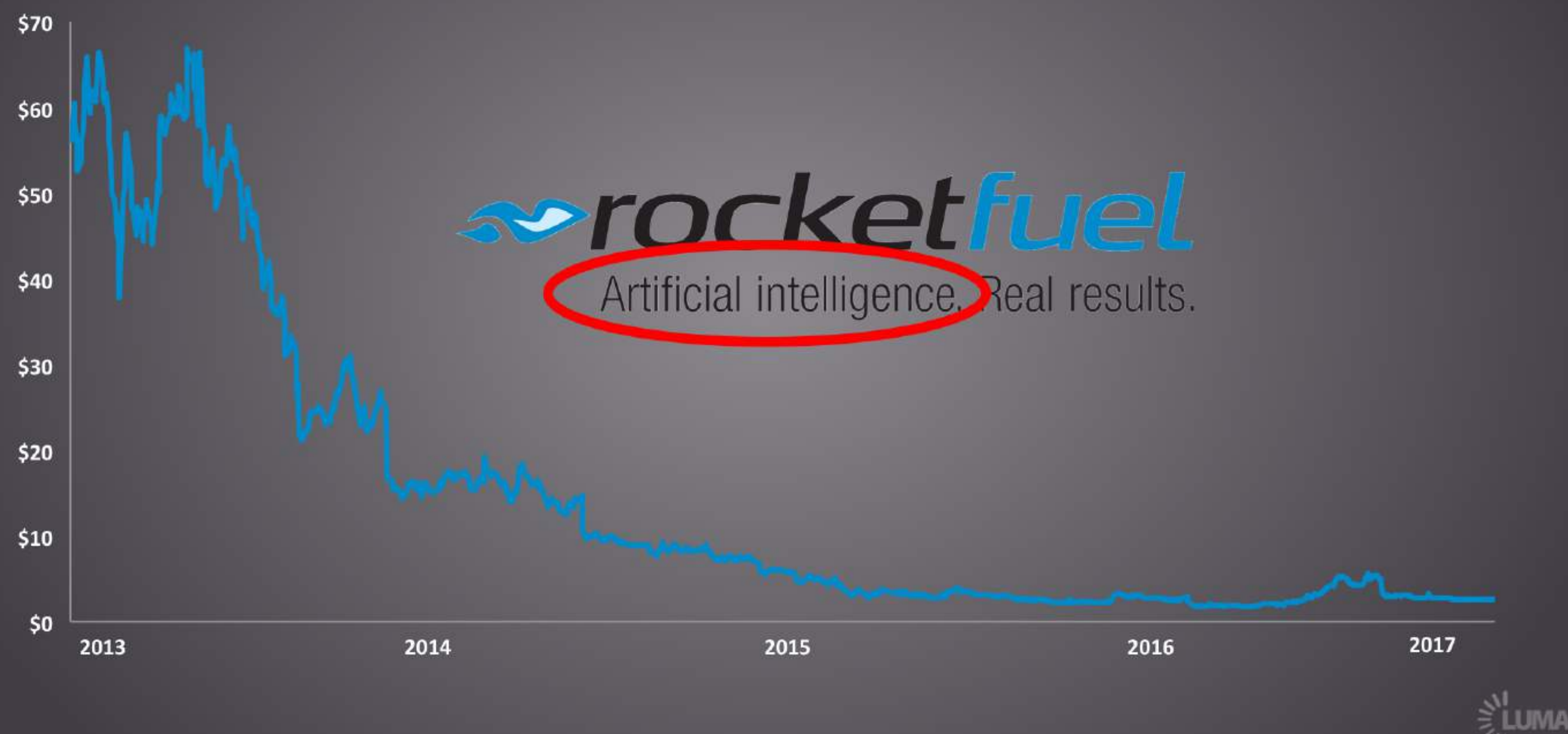
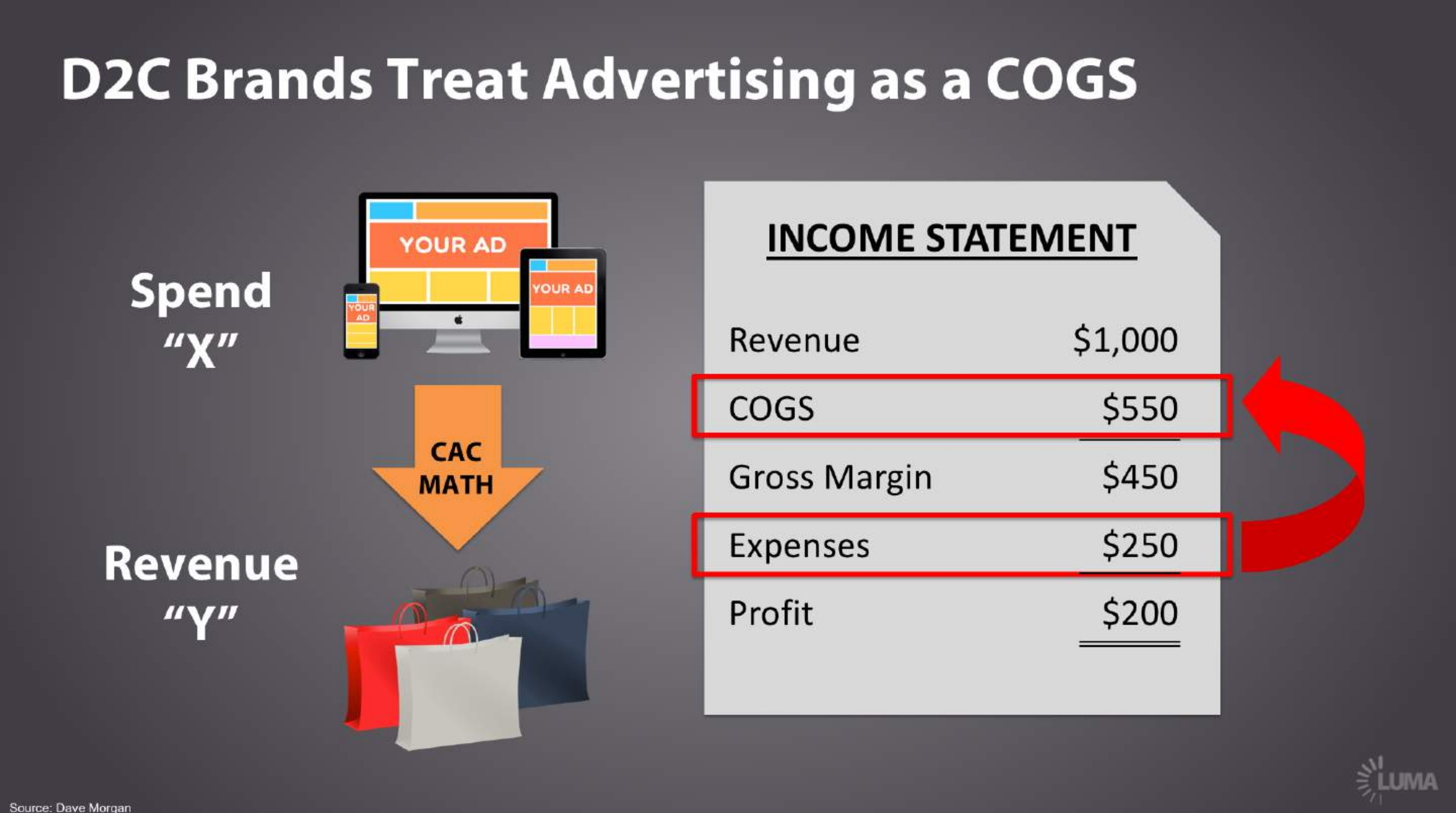
As AI capabilities continue to expand, we are seeing more and more applications within marketing. We are used to the left brain functions that AI is been good at for some time, but it's the right brain functions that excite us, as AI continues to develop.

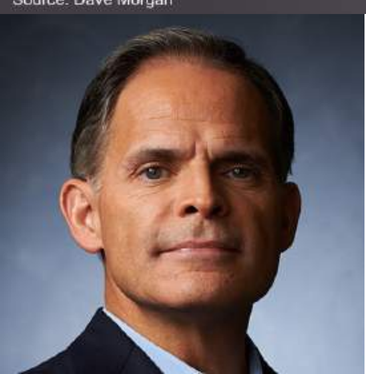
But Be Wary of Hyperbolic AI Sales Pitches



Source: Markets Insider

This does come with a warning. Many early marketing companies labeled themselves as "artificial intelligence", sometimes rewarding them with significant share value. However, as time went on these claims seemed to be overstated, leading to significant price decline.



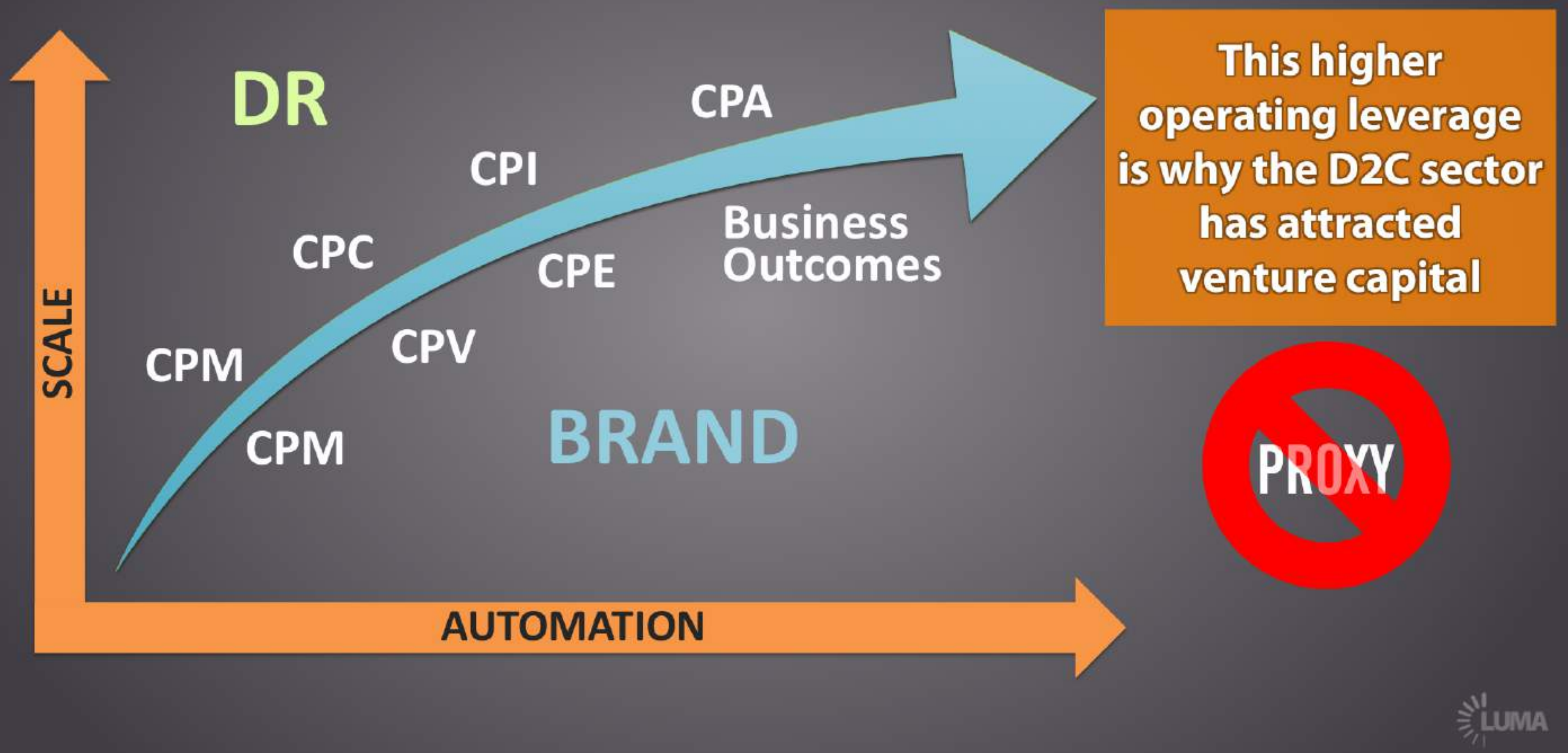


The way D2C approach advertising is fundamentally different. D2C brands know the lifetime value (LTV) of a customer and can thus calculate the bounty to pay for a qualified new customer, which is just customer acquisition (CAC) math. Accordingly, these brands treat advertising as a profit center, effectively moving it up the income statement from a discretionary expense to a cost of goods sold.

And Media Spend is Always On / Firehose

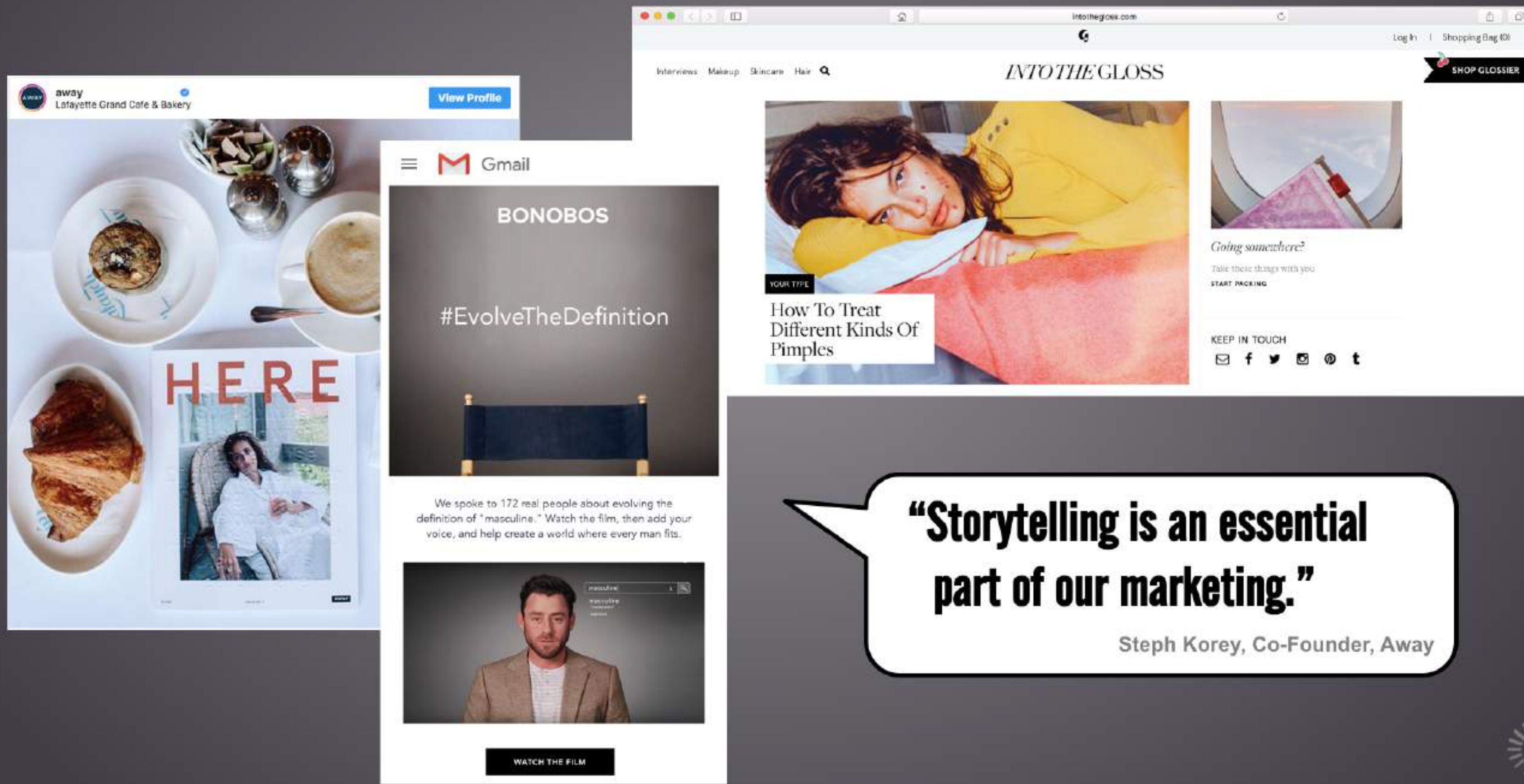
With this approach to advertising, media spend is always on as there is no campaign "off" switch. This "drink from the firehose" dynamic has allowed the D2C brands and their performance media intermediaries, like AppLovin, to scale very rapidly.

Performance Drives Operating Leverage



Whether it's DR or brand advertising, D2C brands are migrating away from proxies and more towards business outcomes. The further up the curve companies are, the higher the operating leverage, which for D2C brands is attracting venture funding.

Content Marketing Drives Customer Engagement



"Storytelling is an essential part of our marketing."

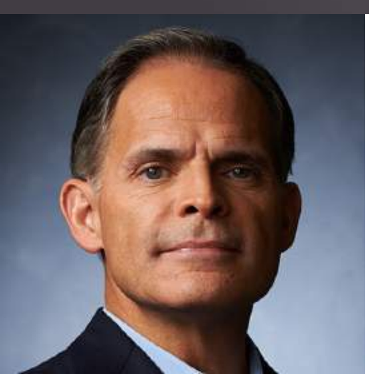
Steph Korey, Co-Founder, Away

D2C brands heavily utilize content marketing. It can be a more efficient strategy than paid media. Also, these founders have a compelling narrative to share with their consumers on the birth of the brand and product, which is very effective for marketing.

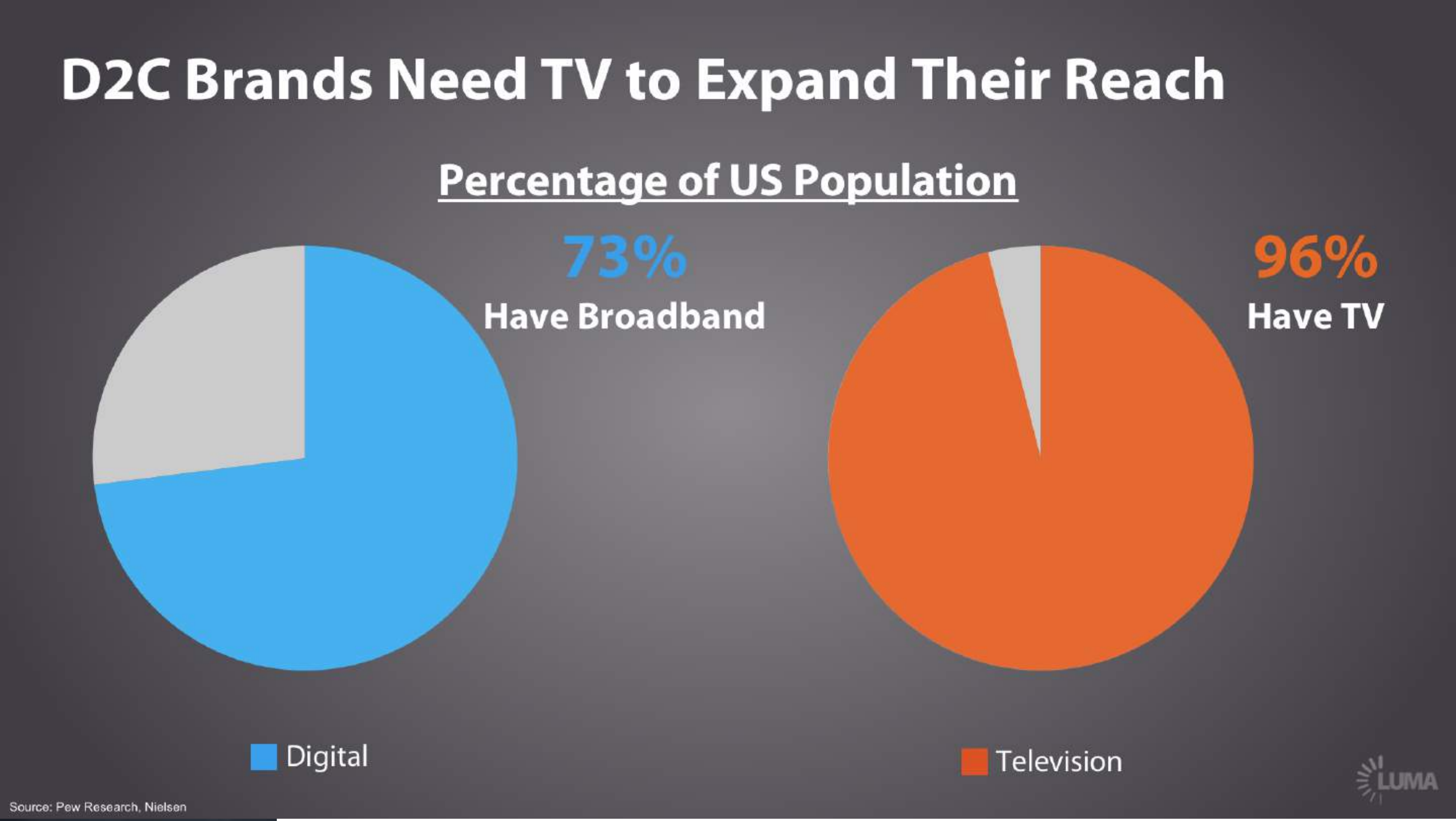
D2C Brands are Outgrowing Digital

D2C brands started their journey on the digital channel, heavily relying on social media to market to the consumer. And it worked! But now, we are seeing that digital is simply not big enough for the growth D2C brands have achieved.

D2C Brands are Outgrowing Digital

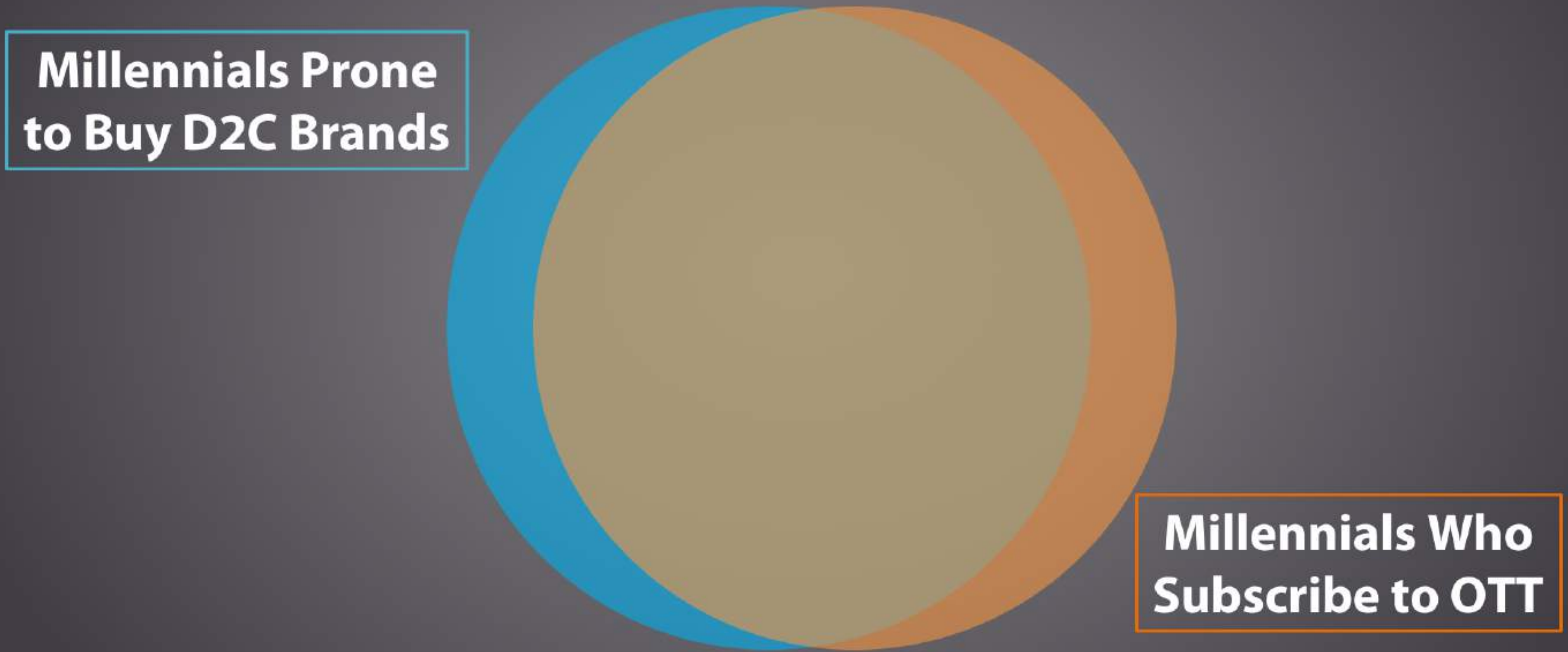


With this, we're seeing D2C brands move outside of the digital channels. These brands are forward integrating into physical retail and using OOH advertising to expand its reach. Lastly, the most significant channel that D2C brands are moving into is television.



In order for D2C brands to access their audience, they need to utilize TV and expand their reach. Only 73% of the US population has broadband penetration, while 96% of the population has access to TV.

OTT is D2C's Nirvana: Matching the Youth Demo



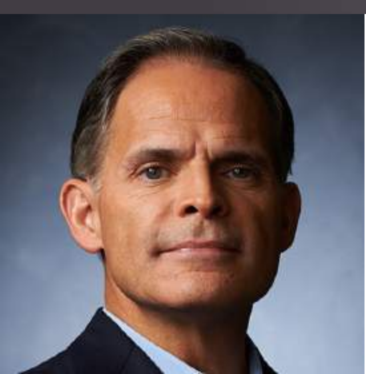
Source: iab

The fast growing Over-The-Top (OTT) category is D2C's nirvana. The cohort of millennials who subscribe to OTT and the cohort of millennials prone to buy D2C brands are virtually the same demo.

D2C Leveraging CTV: Digital Attributes to TV

Convergent television (CTV) applies the digital attributes of targeting, personalization, attribution and performance to TV's sight, sound and motion format, audience and ad spend scale, premium inventory and brand safety.

This CTV opportunity is the greatest in marketing's history.



Can traditional marketers be the fourth iteration of this natural gestation? Let's take a look.

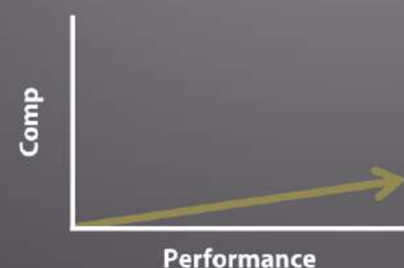
Can Traditional Marketers Join the D2C Fun?

1) Digital native; mobile centric
2) Focus on product design / UX
3) Disintermediation (agencies, retailers, etc.)
4) Identity-focused customer relationship
5) Performance-oriented media spend
6) Content marketing for brand storytelling
7) Growth-focused marketing talent *

* May require personnel change

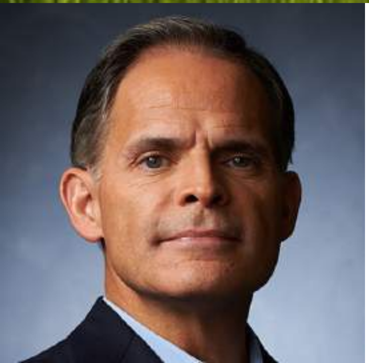
1) Can traditional marketers be digital native / mobile centric? ***No***. *2) Focus on product design / UX?* ***Yes***. *3) Disintermediate?* ***No***. *4) Utilize identity-focused customer relationship?* ***No (many don't even know their customers)***. *5) Use performance-oriented media spend?* ***Marketers could, but those models are already set and most likely won't change.*** *6) Use content marketing for brand storytelling?* ***Yes***. *7) Infuse growth-focused marketing talent?* ***Yes, but with an asterisk. That step may require a personnel change.***

D2C Brands Have Different Talent and Incentives

		Traditional CMO	D2C Brand ~~CMO~~ CGO
TALENT	Average Age	45-60	25-35
	Education	Liberal Arts	Data Science
INCENTIVES	Comp: Salary	$750 K	$250 K
	Comp: Bonus	$400 K	$500 K
	Comp: Equity	Minimal	Lots
	Compensation Leverage		

Traditional CMOs and D2C CMOs are different at every level, starting with their titles. D2C marketing leaders are Chief Growth Officers (CGO), with a focus on results not spend. Age is a generational difference, educational backgrounds are diametrically opposed and the comp structures have completely different incentives. Traditional CMOs have a cash heavy salary, while the D2C CGOs are more heavily weighted on performance bonuses and equity. As a result, D2C CGOs have more leverage.

There are Two Strategy Options for Growth



For traditional marketers wanting to become more like D2C brands there are two options: build or buy. Let's start with build.

Hard For Legacy Marketers to Build D2C Brands

Mike Dubin, Founder and CEO

Over 25 MM views ORGANICALLY!

- **Innovative business model**
- **Coolness factor**

In general, it's very difficult for legacy marketers to build their own D2C brands.

Dollar Shave Club gained market share and popularity with an innovative business model and a coolness factor. The viral video staring Founder & CEO Mike Dubin went viral with over 25 MM views, all organically.

Hard For Legacy Marketers to <u>Build</u> D2C Brands

- Copycat business model
- Screams inauthenticity

- Innovative business model
- Coolness factor

The market share leader, Gillette's response to Dollar Shave Club was to launch Gillette Shave Club, a copycat business model that screamed inauthenticity.

Hard For Legacy Marketers to <u>Build</u> D2C Brands

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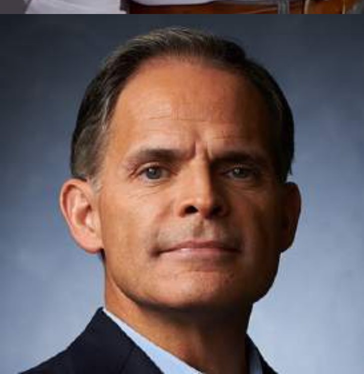
- Copycat business model
- Screams inauthenticity



Traditional marketers trying to build a new D2C brand, is a lot like a middle-aged white man try to dance cool. It's very difficult to make work.

Few Incumbents Have Had Success With D2C

JUNE 2017

NIKE, Inc. Announces New Consumer Direct Offense: A Faster Pipeline to Serve Consumers Personally, At Scale

MARCH 2018

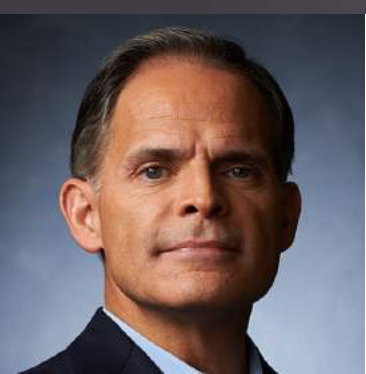
Disney Reorganizes Divisions, Creates Dedicated Direct-to-Consumer Streaming Unit

Nike and Disney are the few incumbents that have had success with D2C, and they are the greatest marketers in the world. Even these brands required significant initiatives and reorganizations in order to succeed with D2C.

There are Two Strategy Options for Growth

So maybe build isn't the way forward. Instead traditional marketers may need to think about buying.

WARNING: LUMA Often Calls for More M&A



LUMA decks often call for more M&A because when you're a hammer, everything looks like a nail!

Scaled D2C Exits Still Nascent

Target	Acquirer	Price	Revenue Multiple	Category	Deal Rationale
jet	Walmart	$3,300 M	3.3 x	Retail	Defensive
ring	amazon	$1,200 M	>10.0x	Home Security	Offensive
DOLLAR SHAVE CLUB	Unilever	$1,000 M	5.0 x	CPG	Offensive
Pill Pack	amazon	$1,000 M	10.0 x	Health	Offensive
HOME CHEF	Kroger	$700 M	2.8 x	Food	Defensive
TRUNK CLUB	NORDSTROM	$357 M	3.6 x	Clothing	Defensive
BONOBOS	Walmart	$310 M	2.5 x	Clothing	Defensive
MVMT	MOVADO	$200 M	2.8 x	Luxury Goods	Defensive
Plated.	Albertsons	$200 M	2.0 x	Food	Defensive
NATIVE	P&G	$100 M	3.5 x	Retail	Defensive

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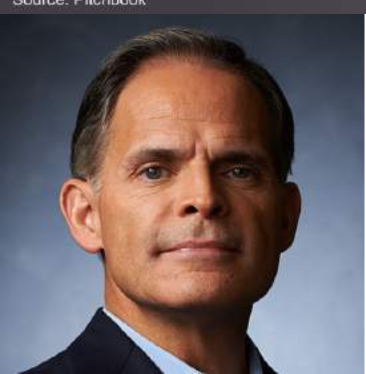
Source: Pitchbook

There have only been 10 scaled D2C exits (defined as those over $100M) in the last few years. As with all acquisitions, these were driven by to opposite strategies, defense, whereby a company is looking to protect their current position, or offense, where a company is opportunistically moving into a new area. The valuations of the defensive rationale deals are multiples of 2-3 x of the underlying valuation. Meanwhile, the offensive deal multiples look more like tech deals with significant multiples to revenue.



Dollar Shave Club is one of the truly amazing D2C outcomes. Mike Dubin makes a funny viral video, which then led to $164M in venture funding. Six years later, after continuing to achieve significant growth, Unilever acquired Dollar Shave Club for $1B.

Culture Infusion Key Component to D2C Value

Target	Acquirer	Price	Revenue Multiple	Category	Deal Rationale
Jet	Walmart	$3,300 M	3.3 x	Retail	Defensive

The Motley Fool

1 Year Later, Wal-Mart's Jet.com Acquisition Is an Undeniable Success

Oct 3, 2017 at 8:18AM

The Motley Fool

The Hidden Risk in Wal-Mart's Acquisition of Jet.com

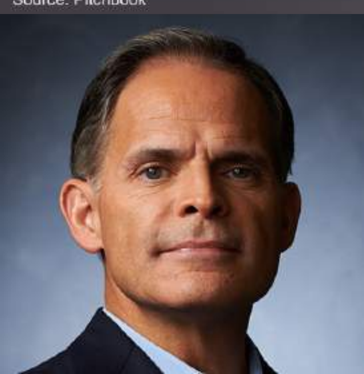
Aug 11, 2016 at 9:00AM

BUSINESS INSIDER

'I think it is a terrible mistake': Ex-Sears executive says Walmart just wasted $3 billion on Jet.com

Aug. 13, 2016, 2:13 PM

Source: Pitchbook



For Walmart, the initial reaction to their acquisition of Jet was mostly negative. However, after just a year, it has become an undeniable success. A key component of this success is the cultural infusion the Jet team has brought into Walmart. Marc Lore is the CEO of Walmart eCommerce.

Fragmentation is a Challenge to Find Targets

One of the challenges of a fragmented ecosystem is finding targets. As with the enterprise side (Ad Tech and MarTech companies), there will undoubtedly be a high failure rate. Therefore acquirers and investors need to choose wisely.

Will We See a 21st Century Conglomerate?

20th Century Conglomerate

BERKSHIRE HATHAWAY INC.

GE

TEXTRON

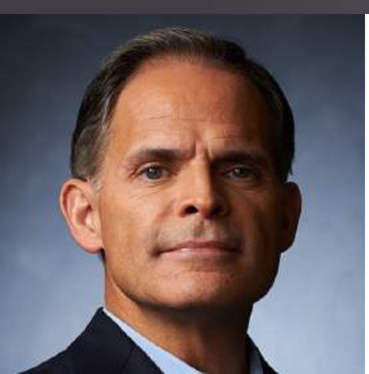
United Technologies

21st Century Conglomerate?

D2C Brands More Like Each Other Than Vertical

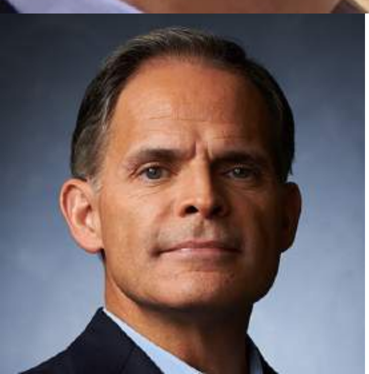
	Footwear	Luggage	Fitness	Eyewear	Razors
Traditional Brands	COLE HAAN	Samsonite	Life Fitness	sunglass hut	Gillette
D2C Brands	allbirds	AWAY	PELOTON	WARBY PARKER	HARRY'S

With the premise that D2C brands have more in common with each other than they do with their vertical competitors, it is possible we could see D2C brand conglomerates. Grouping multiple products around common functionality, especially customer acquisition strategies, has been done at early stage investors like Science, Inc., the LA-based incubator (who launched Dollar Shave Club and many more D2C brands).



We've clearly struck a chord. Now that marketers have seen what's going on, they simply can't ignore this D2C phenomenon.

D2C BRAND LUMAscape



Marc and I can agree on one thing: There is a big opportunity for all marketers to learn from D2C brands.

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EPSILON CONVERSANT Google LiveRamp Oath: ORACLE Data Cloud Quad Graphics

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