

U.S. Lead Generation Agencies

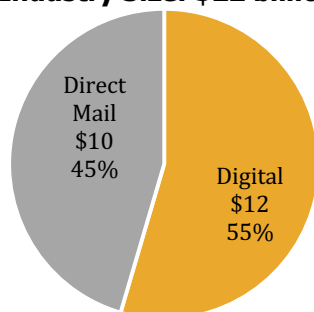
Robust M&A Market in a Fragmented Industry

The U.S. lead generation (“lead gen”) agency industry has been experiencing significant merger and acquisition activity driven by a high degree of fragmentation, specialization, strong cash flows and a growing underlying lead gen market. In a recent survey, 70% of marketers say their lead gen budgets will increase and 34% say their spending will grow by more than 20%¹. Direct mail, contrary to expectations in the new economy, is performing the best since 2003². Digital advertising now represents almost half of the \$208 billion spent on advertising³.

2018 LEAD GEN AGENCY INDUSTRY STATISTICS

(\$ in billions)

Industry Size: \$22 billion



Direct Mail

2018 Agency Revenue	\$10 billion
2018 Advertising Spend	\$44 billion
# of Agencies	2,300+
# of Mail Pieces	85 billion

Digital

2018 Agency Revenue	\$12 billion
2018 Advertising Spend	\$107 billion
# of Agencies	19,000+

Source: IBISWorld research reports, DMA, Pell Research, MAGNA Global

The lead gen industry is fragmented with companies operating differentiated business models. Broadly consisting of more than twenty-one thousand businesses, lead gen agencies include pure play sellers of contact lists, originators and sellers of leads, predictive modelers, content creators, website designers, SEO specialists, print mail houses, providers of direct mail advertising services, traditional advertising agencies and many companies with multiple business strategies. This white paper largely focuses on companies that originate leads and develop predictive models.

The industry presents a compelling investment opportunity for both financial investors and industry incumbents. Since January 2016, there have approximately 100 M&A transactions in the lead gen industry, and we anticipate continued robust deal activity over the next 18 months as financial investors are attracted to the fragmented ecosystem, high cash flow margins and the expanding market size as operators look to dominate verticals, diversify channels, expand capabilities and grow geographically.

¹ Demand Generation Benchmark Survey, 2018

² DMA, since coming out with the Response Rate Report in 2003

³ Per MAGNA Global

INDUSTRY STRUCTURE

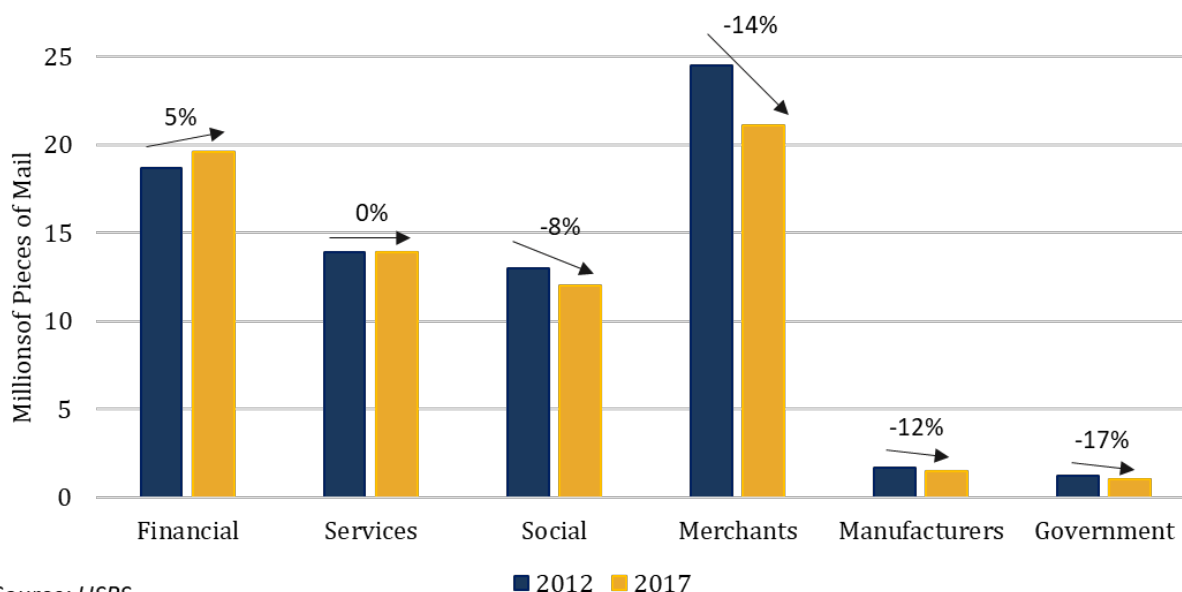
There are two primary channels in lead generation: direct mail and digital.

Direct Mail

Direct mail lead gen agencies provide clients with lists of leads and/or a variety of services, including building predictive response models, designing creative collateral, managing postal logistics, and printing and fulfillment services. Some agencies operate a capital-intensive model and own the printing equipment.







The \$10.2 billion direct mail agency market includes companies that provide services for direct mail advertising, such as creating, producing, and mailing and companies primarily engaged in compiling and selling mailing lists. The industry has been relatively stagnant in revenues, with the exception of 2016 which benefited from political campaigning. Over the last five years, industry growth has been driven by the financial services sector.

DIRECT MAIL MIX



Direct mail lead gen agencies that own printing equipment largely tend to have a generalist industry focus. The lack of specialization is a function of both monetizing investments made in printing equipment and other fixed-cost overhead coupled with the benefits of volume to reduce postal costs.

The table below lists some of the largest companies focused on direct mail lead gen.

COMPANY (ownership)	REVENUE (\$ millions)	INSURANCE/ HEALTHCARE	FINANCIAL SERVICES	TECH/ TELECOM	RETAIL	GENERALIST
 IWCO DIRECT® (ModusLink)	\$443					✓
 SC360 (ICV Partners)	\$282					✓
 DATA-MAIL (Private)	\$155					✓
 FREEDOM (Private)	\$153	✓	✓		✓	✓
 Japs-Olson Company (Private)	\$145					✓
 IBSDIRECT (Logan Marketing)	\$41	✓	✓			✓

Source: Bell and Howell, Direct Mail Top 200 report

Digital

Digital lead gen agencies provide clients leads which have been sourced via digital mediums and/or services to generate leads. The \$12 billion market⁴ includes lead generators such as LendingTree and digital divisions of larger agencies, such as Omnicom.

Digital: Affiliate Leads

The most prominent type of digital lead gen sourcing is affiliate marketing. In affiliate marketing, the digital lead gen company uses content, banner ads, buttons, websites, and email to deliver a lead on which the client can then take action. Affiliate lead providers operate a variety of models to generate leads.

Educational: By providing educational content on topics, lead generators attract consumers to a website and then present the consumer with links to product providers or information request forms.

- Lifestyle blogs such as Quintessenceblog.com, Instagram accounts, Investopedia, Zillow

Review Sites: Reviews or ranks companies in an industry vertical. These sites are not necessarily independent reviewers; some are compensated by the product marketers.

- Best Company, Reviews.com, ConsumerAffairs, TrustPilot Top Ten Reviews, Angie's List

⁴ IBISWorld Industry Report OD5889 Digital Advertising Agencies in the U.S.

Online Marketplaces: Provides multiple offers for price comparison from a variety of providers. Often provide educational content, reviews, tools, calculators and consumer insights.

- Travel Examples: Hotels.com, Kayak, Expedia
- Financial Services Examples: LendingTree, Credit Karma, Nerd Wallet

Affiliate Networks: Brings together merchants and with multiple lead generators. The lead generators are typically content providers.

- CJ Affiliate by Conversant (formerly Commission Junction) and LinkConnector

Affiliate lead generators use a variety of revenue models.

- Pay-per-impression: Pay per 1,000 views of a particular ad, regardless of whether or not the end customer clicks the ad.
- Pay-per-click /pay-per-impression: In 2018, Google Ads moved all reporting to pay-per-impression away from pay-per-click, but still uses both revenue models.
- Pay-per-lead: Qualified and higher quality leads are more expensive.
 - Example: CreditKarma
- Pay-per-sale: Affiliate lead gen company provides leads but is only paid on leads that result in a product sale.
- Pay-to-play: Affiliate website promotes specific companies, typically in content.
 - Example: FindLaw



Leads vary in their likelihood to convert to a sale; higher quality leads are more expensive. Leads can be qualified through prescreening. For example, QuinStreet and Campus Explorer have users fill out a form. Ring transfers qualified leads via a phone call. Qualified lead gen companies are frequently paid on a per lead basis.

Digital: Services

Digital lead gen agencies provide services such as creative development, advertising management, search engine marketing and social media marketing management. Like other consulting businesses, pricing is based on a per project or hour basis.

Industries

Digital lead gen agencies tend to focus on large, information-intensive industries in which relevant and targeted media offerings can assist consumers in making informed choices. Small digital lead gen companies that address specific verticals create enterprise value through niche leadership. By going deep into a vertical, a focused company can target leads more effectively and efficiently than generalist companies. Large lead gen companies, such as LendingTree, have the capacity to address a broader spectrum of verticals, but still restrain their focus to a select number of industries.

COMPANY (ownership)	REVENUE (\$ mm)	INSURANCE/ HEALTHCARE	FINANCIAL SERVICES	TECH/ TELECOM	RETAIL	GENERALIST
 (NASDAQ: TREE)	\$723	✓	✓			
 (NASDAQ: QNST)	\$430	✓	✓		✓	
 (NYSE: QUOT)	\$373				✓	
 (Court Square)	\$325	✓			✓	✓
 (NASDAQ: FLNT)	\$266				✓	✓
 (Harland Clarke)	\$280				✓	
 (Genstar Capital)	\$151	✓				
 (NASDAQ: TTGT)	\$121			✓		
 (Silver Lake)	\$500	✓	✓			
 (Silver Lake)	\$234			✓		
	\$100		✓			

INDUSTRY TRENDS

Response Rates for Direct Mail are Increasing

The mail box is becoming less competitive and response rates on direct mail increased to 5.1% in 2018, the highest level in ten years². In 2017, 64 billion fewer pieces of mail went through the U.S. postal system than in 2006,⁵ but almost half of the 150 billion pieces mailed in 2017 were direct mail. Response rates on direct mail are rising due to a confluence of factors:

- Improved targeting methods
- Highly personalized messaging capabilities. For example, adding a person's name and full color can increase response by 135%⁶
- High brand recall, as much as a 75% compared to digital⁷

⁵ USPS

⁶ Canon Solutions America

⁷ True Impact and Alan Sherman of IWCO Direct

Interestingly, the response rate for direct mail among people aged 8-21 is 12.4%⁸.

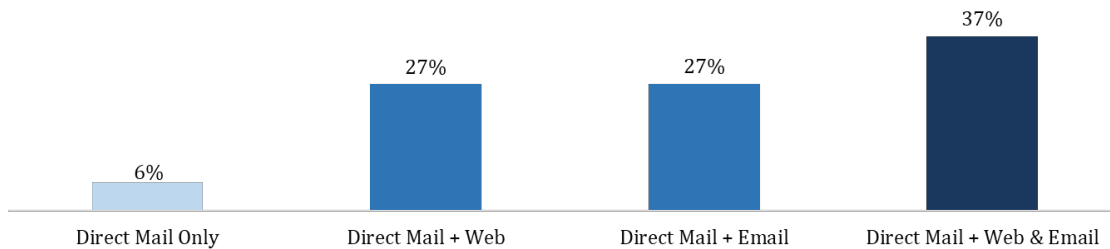
More Digital Advertising Agencies are Transitioning to Consultative Business Models

While digital advertising now accounts for approximately 50% of total U.S. ad spending, tactical solutions such as banner ads and website builds are becoming commoditized. Digital advertising agencies are repositioning to focus on providing higher quality leads and value-added services such as predictive modelling and strategic consulting, based on deep vertical knowledge to execute go-to-market approaches.

Combining Digital and Direct Mail is Powerful

Google, one of the most iconic internet businesses, sends out direct mail campaigns. E-commerce brands such as Stitch Fix, Blue Apron and LendingClub are also using an omnichannel approach. Surprisingly, direct mail combined with digital initiatives is the most productive direct marketing strategy. A study by Compu-Mail found that it can take 18-20 touchpoints to reach a customer for the first time. The broadest audience reach is through multiple channels. Digital can increase direct mail response rates by 31%, and direct mail can increase digital response rates by 10%.

DIRECT MAIL + DIGITAL = HIGHER RESPONSE RATES



Source: ListGIANT

M&A ACTIVITY

Lead gen companies and private equity firms are investing in businesses in both the digital and direct mail channels. We expect robust acquisition activity over the next 18 months as strategic and financial acquirors demonstrate continued interest in lead gen businesses.

⁸ DMA

Value Drivers

Small and medium size lead gen company valuations are impacted by uniqueness, diversification, differentiation and cash flow.

- Proprietary intellectual property
 - Companies with proprietary approaches to building models and data sourcing are more valuable than unqualified list providers due to both the uniqueness of the product and the high switching costs for clients.
- Diversification
 - A diversified client base, defined as less than 20% of total revenues per client, is more valuable as the company will experience less revenue volatility.
- Focus
 - Small digital and capital-light direct mail lead gen companies that address specific verticals create enterprise value through niche leadership. By going deep into a vertical, a focused company can target leads more effectively and efficiently than small generalist companies.
- Cash flow
 - Revenue models will dictate timing and security of cash flows. Models in which the Company is paid after a lead converts or with greater than thirty-day terms increase cash flow risk.

Investments and Acquisitions by Strategics

Acquisitions by Lead Gen Incumbents

Since 2014, there have been over 35 transactions by existing lead gen companies. LendingTree.com has been a prolific acquirer, purchasing nine lead gen businesses since 2016. The company is targeting businesses that build out verticals or lead channels, as evidenced by its acquisition of financial education website StudentLoanHero.com and insurance quote comparison provider QuoteWizard.com. Lead gen incumbents are acquiring assets to: 1) become the leader in a specific industry vertical (vertical domination); 2) pursue lead gen for a new industry vertical (industry expansion); 3) add a distribution channel such as direct mail or digital (channel expansion); 4) increase technological or analytical capabilities (capabilities expansion); and 5) expand geographic coverage (geographic expansion).

SELECT M&A DEALS BY LEAD GEN INCUMBENTS

BUYER	TARGET	RATIONALE
Boomtown	Real Contact	Capabilities Expansion
Definitive Healthcare (Spectrum Equity)	HIMSS Analytics	Vertical Domination
DiscoverOrg (TA Associates)	ZoomInfo	Vertical Domination
Fluent	Q Interactive	Industry Expansion
HomeSpotter	Spacio	Vertical Domination
In-House Realty (Rock Holdings)	ForSaleByOwner.com	Capabilities Expansion
LendingTree	ValuePenguin.com QuoteWizard.com Student Loan Hero Ovation Credit Services Snap Capital LLC, non-lending assets MagnifyMoney DepositAccounts.com CompareCards Simple Tuition	Vertical Domination
Mail Masters of Colorado	Direct Response	Vertical Domination
Mittera Group	EarthColor	Capabilities Expansion
Move, Inc. (News Corp)	Opcity	Vertical Domination
NerdWallet	Aboutlife	Vertical Domination
Prompt Direct	Universal Mailing Services	Channel Expansion
Propertybase (Providence Strategic Growth)	BoldLeads	Vertical Domination
QuinStreet	Katch (certain assets)	Industry Expansion
Rock Holdings (Quicken Loans)	Core Digital Media, certain assets	Industry Expansion
Valassis	GET1FREE, Inc.	Geographic Expansion
Zeta Global	Acxiom's marketing division, Impact	Capabilities Expansion

Bold indicates Colonnade client.

Vertical Integration

Companies utilizing lead gen providers are pursuing acquisitions to vertically integrate to create a proprietary lead source. The vertical integration can result in valuable synergies. A recent example is Solar Integrated Roofing's acquisition of a direct mail lead provider for the industry.

M&A DEALS BY VERTICAL INTEGRATORS

DATE	BUYER	TARGET
Jan-19	Solar Integrated Roofing Corp.	Direct-Mail Company
Nov-18	Drop <i>(New Enterprise Associates)</i>	Canopy Labs
Sep-18	Protect My Car	Direct Media Partners
Dec-17	ModusLink Global Solutions	IWCO Direct
Aug-17	WeWork	Unomy
Apr-17	Harland Clarke Holdings <i>(MacAndrews & Forbes)</i>	RetailMeNot <i>(Tritium Partners)</i>
Sep-16	Argyle Executive Forum	Proformative's webinar and lead gen business unit

Investments and Acquisitions by Private Equity Firms

Private equity firms have been active in the lead gen space, acquiring over sixty platform and add-on acquisitions since 2008. Buyers are attracted to the fragmented ecosystem, high cash flow and the expanding market size. A number of private equity firms have successfully sold their lead gen businesses, which tends to attract more private equity interest to the industry. Recent successful transactions include the sale of Direct Marketing Solutions by Caymus Equity to Main Street Capital and the sale of LeadingResponse by Huron Capital to ICV Partners.

Platform Acquisitions

Private equity has pursued lead gen companies as platforms for additional acquisitions, a “buy and build” strategy, to capitalize on industry fragmentation. For example, since acquiring Credit Karma in 2018, Silver Lake has already made two acquisitions. The buy and build model has been successfully deployed by private equity investors in other industries, most notably, insurance agencies.

SELECT PRIVATE EQUITY PLATFORM INVESTMENTS

DATE	PRIVATE EQUITY BUYER	PLATFORM	# OF ACQUISITIONS
Dec-18	H.I.G	Vision Integrate Graphics	1
Mar-18	Silver Lake	Credit Karma	6
Feb-18	Clearview Capital	Mudlick Mail	1
Jan-18	Northlane Capital Partners	List Partners	2
Nov-17	LLR Partners	eLocal	2
Jun-17	Aquiline Capital Partners	OSG Billing Services	9
May-17	ICV	LeadingResponse (Huron Capital)	1
Dec-16	ICV	SG360	1
Mar-16	Clairvest Group	Digital Media Solutions	5
Nov-15	H.I.G Growth Partners	Centerfield Media Holdings	2
Jun-15	Genstar Capital	All Web Leads (Great Hill Partners)	2
Mar-15	Spectrum Equity	Definitive Healthcare	3
Jan-15	Silver Lake	Red Ventures	6
Jun-14	KKR	Internet Brands (Hellman & Friedman)	24
May-14	TA Associates	DiscoverOrg	3
Sep-12	Spectrum Equity	WeddingWire	6

Add-on Acquisitions

Private equity-backed lead gen companies are acquiring targets to fuel growth, expand verticals and eliminate competition. Digital Media Solutions, owned by Clairvest, made three acquisitions in 2018 to expand industry verticals.

SELECT PRIVATE EQUITY ADD-ON INVESTMENTS

PLATFORM	ADD-ONS	RATIONALE
All Web Leads (Genstar Capital)	InsuranceQuotes.com InsuranceLeads.com	Vertical Domination
Credit Karma (Silver Lake)	Noddle Approved Penny, OnePriceTaxes, Snowball	Geographic Expansion Industry Expansion Capabilities Expansion
Digital Media Solutions (Clairvest Group)	Fosina, BetterLoanChoice.com, W4, Best Rate Referrals, Sparkroom	Industry Expansion
eLocal (LLR Partners)	CityGrid Ring Router	Vertical Domination Channel & Industry
Internet Brands (KKR)	Avvo, WebMD, inhabitat.com, Weddingbee.com, JustMommies.com, Nolo	Industry Expansion
Mspark, Inc (Court Square)	National Mail-It	Geographic Expansion
Mudlick Mail (Clearview Capital)	Muscle Up Marketing	Industry Expansion
OSG Billing Services (Aquiline Capital)	Windsor Circle, WhatCounts, Garfield Group, AppRev, Miria Systems, Inc Diamond Communication ClickSpark, DoublePositive Communis	Capabilities Expansion Industry Expansion Capabilities & Industry Geographic Expansion
Propertybase (Providence Strategic Growth)	BoldLeads	Capabilities Expansion
Red Ventures (Silver Lake)	MyFinance, Bankrate, Allconnect, Choose Energy, Soda.com, Imagitas	Industry Expansion Capabilities Expansion
SG360 (ICV)	Data Service Solutions	Capabilities Expansion
WeddingWire (Spectrum Equity)	The Knot, Project Wedding, Gayweddings.com, Bodas, Matrimonio.it Italia, Wedding Planner	Industry Domination Geographic Expansion

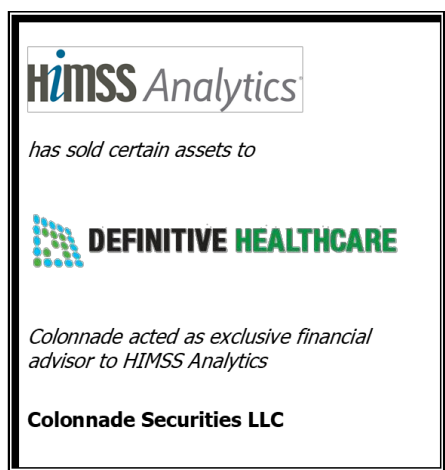
INTEGRAL PIECE OF THE VSC VALUE CHAIN

Colonnade takes a particular interest in tracking the lead gen industry because of its importance in the Vehicle Service Contract (VSC) industry. Lead gen agencies provide digital and direct mail solutions for sellers of aftermarket VSCs, a large and growing opportunity. See our white paper published in January 2019.

CONCLUSION

The lead gen industry is large, fragmented and growing. Traditional direct mailers and digital specialists are innovating and creating attractive acquisition opportunities for industry incumbents, new entrants, and private equity investors. We expect continued robust M&A activity over the next 18 months as both private equity investors and strategic operators seek to generate higher returns from favorable industry trends.

Colonnade advised HIMSS Analytics on its sale of certain assets to Definitive Healthcare



January 2019. Colonnade advised HIMSS Analytics on the sale of its data services business and assets which includes the LOGIC, PREDICT, ANALYZE and CUSTOM RESEARCH products to Definitive Healthcare. Definitive Healthcare and HIMSS Analytics harness more than 20 years of experience in data collection through exclusive methodologies that have resulted in deep healthcare data expertise. With this acquisition, Definitive Healthcare further bolsters its leading market intelligence platform, which already helps thousands of customers successfully engage with healthcare providers and advance industry efficiencies and best practices.

For more information on the U.S. Lead Generation Agency Industry, please contact:

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