

U.S. Lead Generation Agencies

M&A Activity Continues Through COVID-19

LEAD GENERATION INDUSTRY
Market Commentary – September 2020

MERGERS & ACQUISITIONS
CAPITAL RAISING
COLADV.COM



As we reported in our February 2019 industry commentary, the U.S. lead generation (“lead gen”) agency industry has been experiencing significant mergers & acquisition activity in recent years. Several recent high profile exits by private equity backed strategics highlight the attractiveness of the sector and the investment opportunities available to the financial sponsor community and other strategics. Further, increased demand for lead gen products and services is driving strong operational performance.

Our previous discussion highlighted the strong industry fundamentals and drivers of M&A activity in this market, which include fragmentation, specialization, strong cash flows, and a growing underlying lead gen market.

The industry’s fragmented nature and low capital intensity create a compelling investment thesis and opportunities for value creation, highlighted by three major themes:

1. The “buy and build” strategy is a path to value creation; and
2. Size matters; but
3. Size is just a piece of the value maximization puzzle.

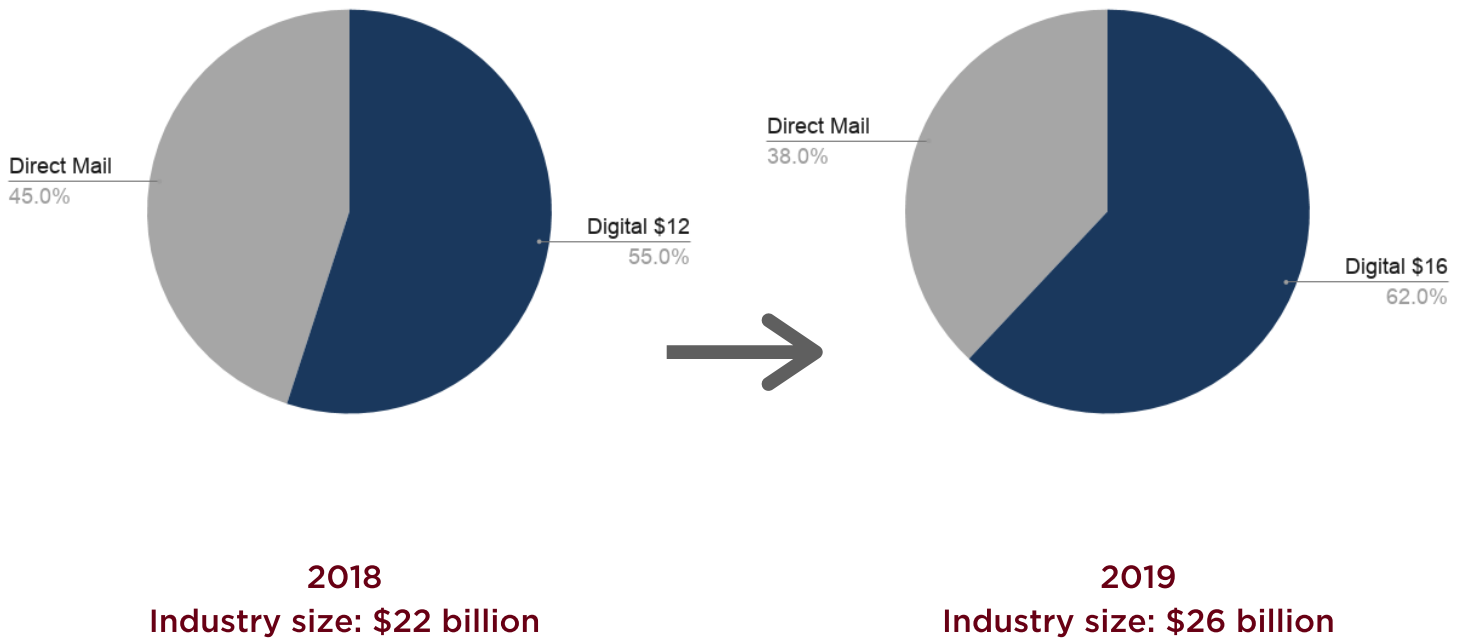
Background

Today, marketers are searching for innovative solutions to break through the noise to reach consumers in meaningful ways. In this COVID-19 environment, more consumers are at home to receive mail and phone calls and browse digital materials aimed toward customer acquisition.

The lead gen industry now totals \$26 billion, up 18% over 2018. The digital segment is growing faster (up 33% year over year) than direct mail and represents more than 60% of the overall lead gen market. The emphasis on digital lead gen solutions indicates that data analytics, rather than the data itself, is where the value lies. Companies that provide high value data analytics and tools are increasingly valuable and are in high demand.

Lead gen industry growth

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



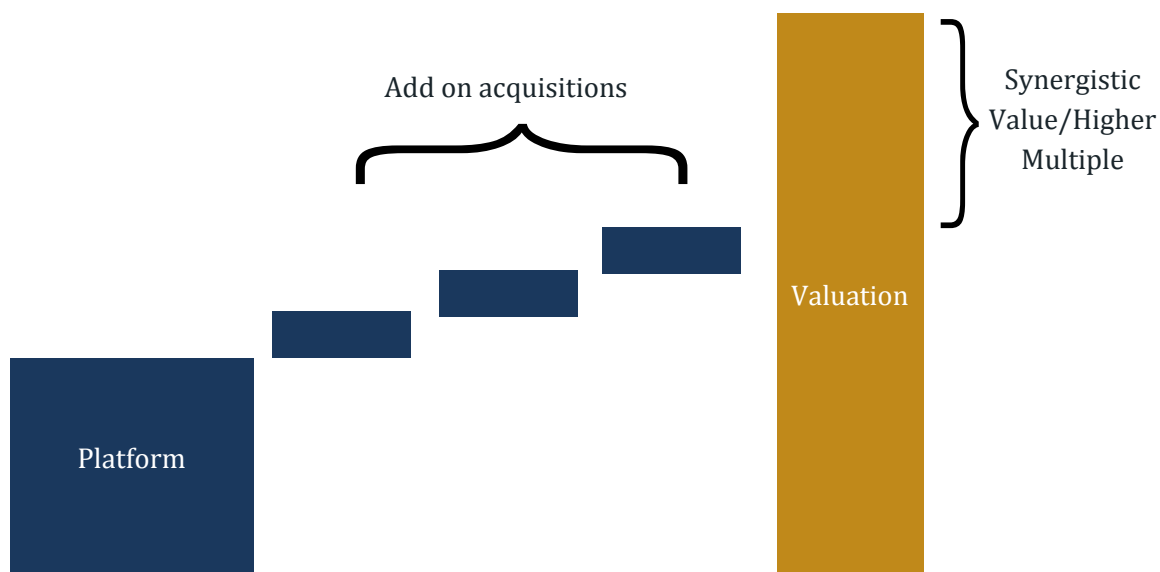
The global pandemic has driven an unexpected rise in the sale of peace of mind products, such as VSCs and home warranties, which has been favorable for lead gen companies. Direct marketers of these products are benefiting from consumers being available for solicitation and motivated by financial uncertainty. Some sectors, such as those that serve traditional financial services clients such as banks, are faring less well. As banks are flush with deposits and not eager to extend consumer credit in this environment, advertising and lead gen procurement have slowed considerably.

Value Drivers

1 The “buy & build” strategy is a path to value creation

Private equity buyers are attracted to the lead gen industry’s fragmented ecosystem, high cash flow, and the expanding market size. Several recent transactions in the lead gen industry highlight the success of the time-tested private equity buy and build strategy. Private equity firms are experts at acquiring a platform investment and then making strategic acquisitions to increase market share and expand capabilities. When a platform investment experiences growth fueled by acquisitions, the larger, synergistic entity is generally awarded a higher exit multiple. Financial leverage in the initial and follow-on acquisitions boosts returns for the financial sponsor and other equity holders.

The buy and build strategy creates synergy and value



Silver Lake’s 2018 investment in Credit Karma promises to pay off handsomely with the pending acquisition by Intuit for \$7 billion. Silver Lake made a \$500 million investment in Credit Karma through a secondary offering for a minority stake, valuing Credit Karma at \$4 billion only two years ago. Credit Karma had previously received a \$370 million investment from Ribbit Capital, Susquehanna Growth Equity, and others. Credit Karma has completed eight acquisitions in recent years.

Other recent private equity success stories in the sector highlight this trend which, in turn, is driving increased investor interest and capital to the sector. As an example, Platinum Equity recently acquired Centerfield Media Holdings from H.I.G. Growth Partners in February 2020 and has already completed an add-on acquisition of Digital Ventures.

Drivers for lead gen acquisitions

The diagram shows a central grey circle labeled "Platform". Five red lines radiate from this central circle to five surrounding dark blue circles. Each blue circle contains a white icon and a text label below it:

- Vertical domination:** Icon of three ascending bars of increasing height.
- Capabilities expansion:** Icon of a lightbulb with circuit-like lines inside.
- Industry expansion:** Icon of a pie chart with a dollar sign in the center.
- Geographic expansion:** Icon of a map with a location pin.
- Channel expansion:** Icon of a central node with arrows pointing to five surrounding nodes.

Companies that are large enough to be used as platforms for add-on acquisitions are at the top of the valuation hierarchy.

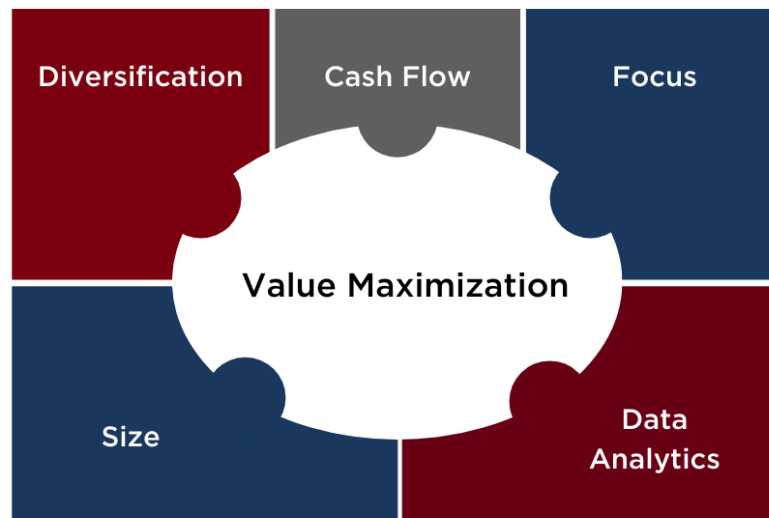
Select Private Equity Add-On Investments

PLATFORM	ADD-ONS	RATIONALE
All Web Leads (Genstar Capital)	InsuranceQuotes.com InsuranceLeads.com	Vertical Domination
Centerfield (Platinum Equity)	Digital Ventures Qology Direct	Industry Expansion Capabilities Expansion
Credit Karma (Silver Lake)	Noddle Approved Penny, OnePriceTaxes, Snowball	Geographic Expansion Industry Expansion Capabilities Expansion
Digital Media Solutions (Formerly Clairvest Group)	Avenue 100, Best Rate Referrals, BetterLoanChoice.com, Fosina, GotConsumer, Lead Media Partners, Luav, Mocade Media, One on One Marketing, She is Media, SmarterChaos, Sparkroom, UE.co, W4	Industry Expansion
DiscoverOrg (TA Associates)	Neverbounce RainKing, ZoomInfo	Capabilities Expansion Vertical Domination
Hero Digital (CI Capital Partners)	Beyond Vigilant, Bulldog Solutions, Clock Four Delphic Digital, MaassMedia	Geographic Expansion Capabilities Expansion
Internet Brands (KKR)	AudiWorld.com, Avvo, ClubLexus.com, CorvetteForum.com, DentalPlans.com, G35Driver.com, FordTrucks.com, iMatrix, inhabitat.com, JustMommies.com, My350z.com, Net Driven, Ngage Live Chat, Nolo, NorthAmericanMotoring.com, Rennlist.com, ScoobyNet.com, WebMD, Weddingbee.com, ZDriver.com, 6SpeedOnline.com	Industry Expansion
LeadingResponse (ICV Partners)	IMSolutions, Resource Solutions, RME Group LeadRival	Vertical Domination Capabilities Expansion
Mspark, Inc (Court Square)	Ad-Venture Magazine Market Select, National Mail-It, Stone Creek Media, Valu-Direct	Capabilities Expansion Geographic Expansion
OSG Billing Services (Aquiline Capital)	AppRev, Windsor Circle, WhatCounts, Garfield Group, Miria Systems Diamond Communication ClickSpark, DoublePositive Communis	Capabilities Expansion Industry Expansion Capabilities & Industry Geographic Expansion
Propertybase (Providence Strategic Growth)	BoldLeads	Capabilities Expansion
Red Ventures (Silver Lake)	Allconnect, Bankrate, Choose Energy ExpertFlyer, MyFinance Soda.com Healthline, HigherEducation.com, Imagitas, Modern Consumer	Industry Expansion Capabilities Expansion Vertical Domination
SG360 (ICV Partners)	Data Service Solutions Rolvent Solutions Group	Capabilities Expansion Geographic Expansion
UpSwell (Clearview Capital)	Muscle Up Marketing	Industry Expansion
Vision (H.I.G.)	The Core Organization, SourceLink	Capabilities Expansion
WeddingWire (Permira/Spectrum Equity)	The Knot, Project Wedding, Gayweddings.com Bodas, Matrimonio.it Italia, Wedding Planner XO Group	Industry Expansion Geographic Expansion Vertical Domination
Xpressdocs (Falcata Capital)	Amazingmail, Global Group Merrill Corporation's Residential Real Estate Sector	Capabilities Expansion Industry Expansion

3 Size is just a piece of the value maximization puzzle

M&A in the lead gen industry is entering into a new phase. There are hundreds, if not thousands, of lead providers. There are far fewer companies that deliver a higher value add such as data analytics and efficiency-enhancing technology. These companies generally trade for higher valuations. Some firms masquerade as data analytics firms but are really just data hygiene companies.

Value maximization for lead gen companies



Industry participants recently commented that the shift to digital performance-based advertising models results from mounting pressure on advertisers to demonstrate return on investment. Salesforce research from 2019 shows an increase in the number of marketers planning to track customer acquisition cost, cost per lead, and marketing ROI, among other marketing metrics. As a result, firms with sophisticated data analytics services and reporting are increasingly valuable.


Conclusion

M&A activity in the lead gen industry remains robust and has continued through COVID-19. There have been over ten lead gen M&A transactions since the pandemic started earlier this year.


Several high profile exits by private equity firms showcase the value of lead gen companies and the opportunity to maximize value by increasing scale and capabilities through add-on acquisitions.

Incumbent 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 acquirers demonstrate continued interest.

Colonnade is a leading advisor to the lead gen industry



has sold certain assets to



Colonnade acted as exclusive financial advisor to HIMSS Analytics

Colonnade Securities LLC



has been acquired by



Crestview Partners

The undersigned acted as exclusive financial advisor to Protect My Car

Colonnade Securities LLC



has been acquired by



and management

Colonnade acted as exclusive financial advisor to APC Integrated Services Group, Inc.

Colonnade Securities LLC




has been sold to




Colonnade acted as exclusive financial advisor to Endurance Warranty Services, LLC and Endurance Dealer Services, LLC

Colonnade Securities LLC



has been acquired by



The undersigned acted as exclusive financial advisor to Mepco Insurance Premium Financing, Inc.

Colonnade Advisors LLC



has been sold to



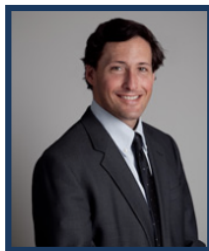

The undersigned acted as exclusive financial advisor to AutoAssure, LLC

Colonnade Securities LLC

For more information on the U.S. lead gen agency industry, please contact:



Gina Cocking
Managing Director
312.425.8145
gcocking@coladv.com



Jeff Guylay
Managing Director
208.726.0788
jguylay@coladv.com



Tiffany Hu
Director of Business Development
312.870.6204
thu@coladv.com



Colonnade Advisors LLC • 500 West Madison Street • Suite 3410 • Chicago IL • 60661
Investment banking services provided through Colonnade Securities LLC, member FINRA

Colonnade is an independent investment bank focused on the financial services and business services sectors. Colonnade provides expert, objective advice on mergers and acquisitions, private placements, fairness opinions, valuation opinions and corporate finance issues for privately held businesses, publicly traded companies and financial sponsors. Our senior bankers bring extensive transaction experience, industry expertise, a process orientation and a sense of urgency to each engagement.

This advertisement was prepared September 9, 2020. It is not investment advice, and Colonnade undertakes no obligation to update the information contained herein.

Sources: SEC filings, regulatory filings, and company presentations.
©2020 Colonnade Advisors LLC.

Copyright and Other Important Information

This document, including text, graphics, logos, icons, images and the selection and arrangement thereof, is the exclusive property of Colonnade Advisors LLC and is protected by U.S. and international copyright laws. Colonnade hereby permits you, unless you are an investment bank or other financial advisor, to download, copy, distribute, publish, reproduce, cite, link or post this document or its contents subject to the following conditions: 1) you retain on any material all copyright and other proprietary notices and 2) you do not modify this document or its contents in any way. Colonnade reserves all rights not expressly granted. This document and the information that it contains are produced by Colonnade Advisors LLC solely for general background information on the matters described. This document or any of its information may not be used for investment, valuation or accounting purposes. None of Colonnade or its representatives or affiliates has agreed to or has assumed any responsibility to provide you with investment advice, whether in a fiduciary capacity or otherwise.