

U.S. Lead Generation Agencies

M&A Activity Continues Through COVID-19

LEAD GENERATION INDUSTRY
Market Commentary – September 2020

MERGERS & ACQUISITIONS
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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.

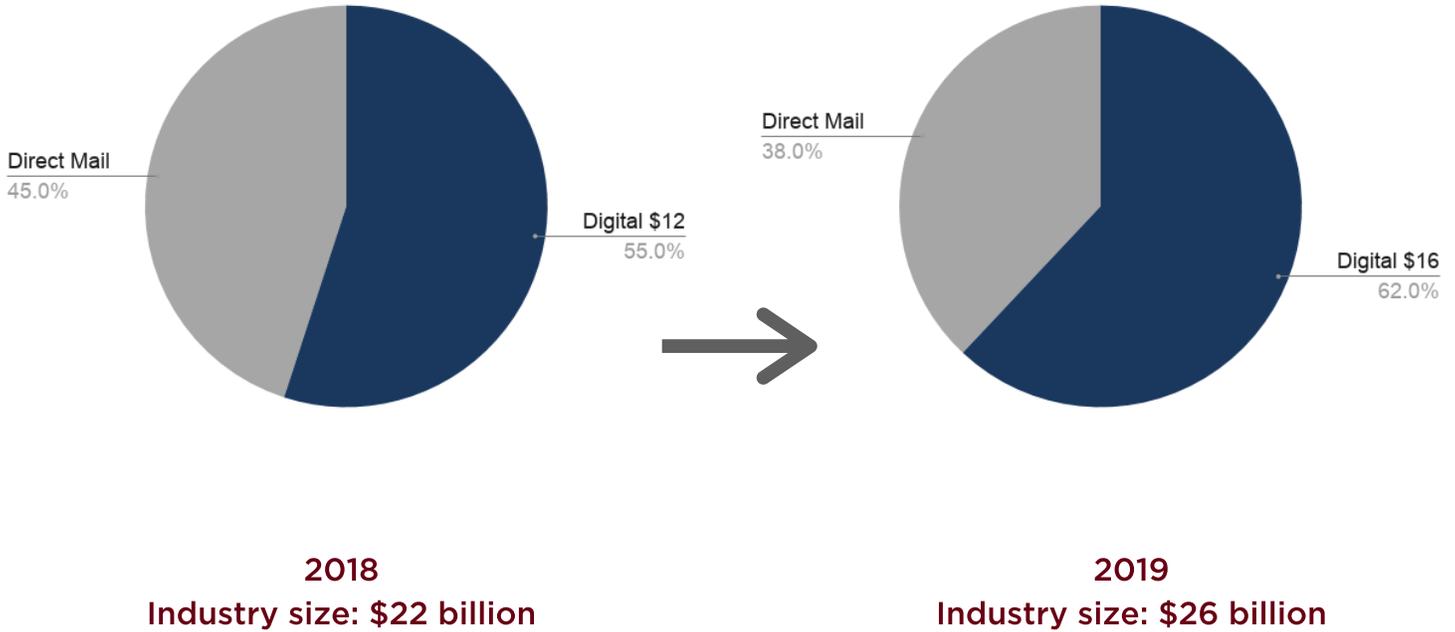
Background

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



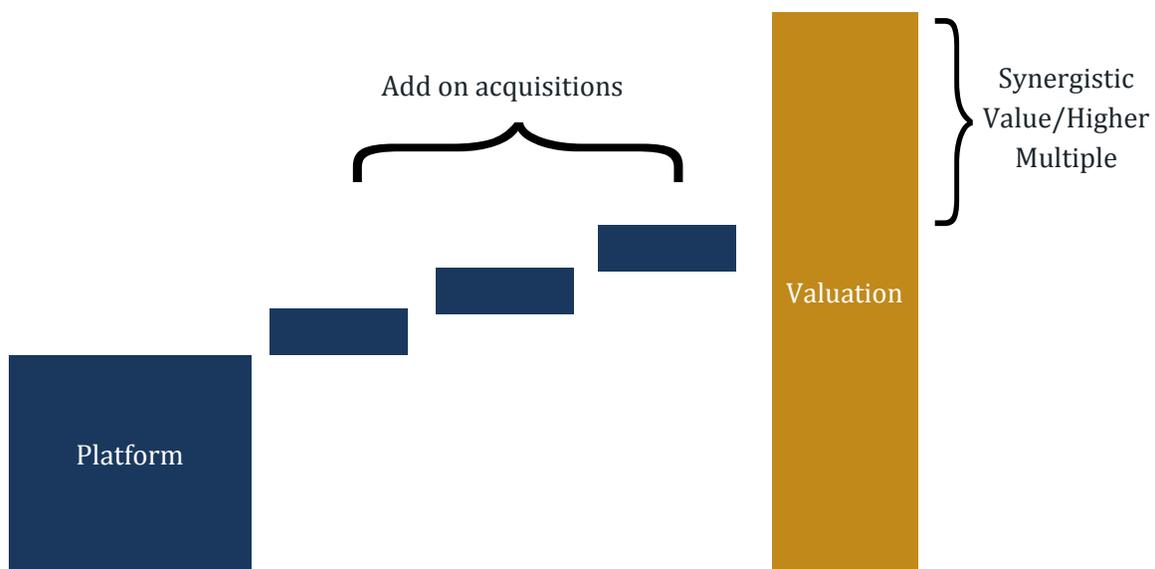
The global pandemic has driven an unexpected rise in the sale of peace of mind products, such as VSCs and home warranties, which has been favorable for lead gen companies. Direct marketers of these products are benefiting from consumers being available for solicitation and motivated by financial uncertainty. 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.

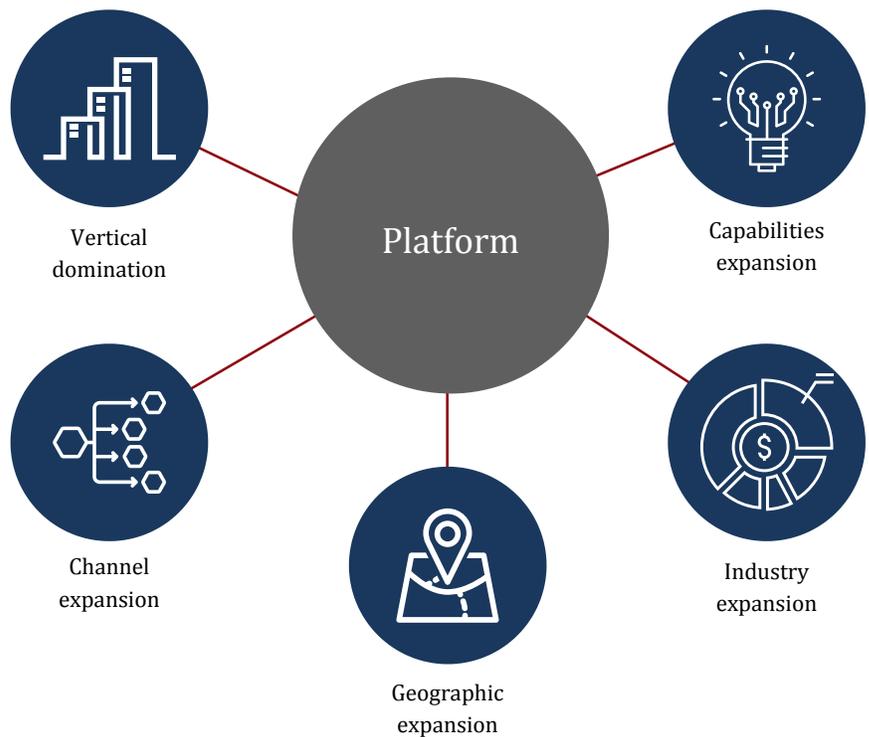
The recent merger of Digital Media Solutions (DMS) into a special purpose acquisition company (SPAC) provided liquidity for shareholders, including Clairvest Group and Lion Capital. DMS is another example of a platform lead gen company that grew significantly through acquisitions with the support of its financial sponsors. Since the investment in 2016, DMS completed nine acquisitions. DMS merged into Leo Holdings in April 2020, successfully providing shareholder liquidity through a (back door) IPO.

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.

2 Size matters

Since 2014, there have been more than 35 M&A transactions by incumbent lead gen companies. LendingTree.com has been a prolific acquirer, purchasing nine lead gen businesses since 2016. Private equity firms have been active in the lead gen space, acquiring over 100 platform and add-on acquisitions since 2012. Firms are pursuing add-on acquisitions to add scale and diversify.

Drivers for lead gen acquisitions



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

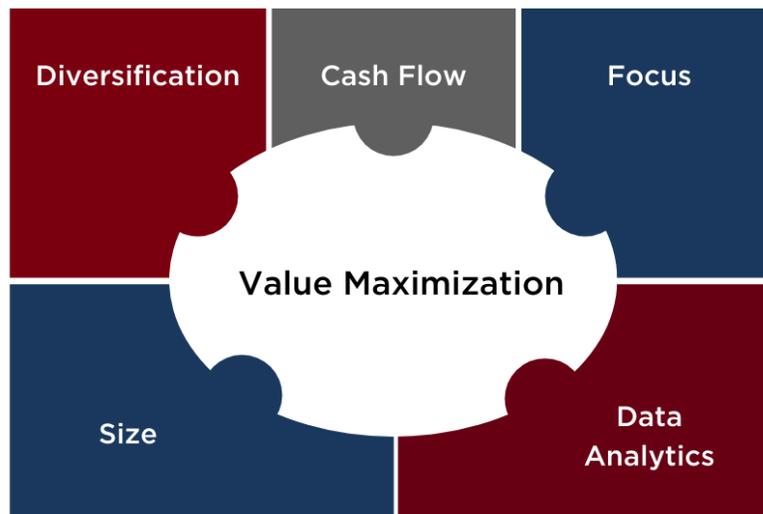
Select Private Equity Add-On Investments

PLATFORM	ADD-ONS	RATIONALE
All Web Leads <i>(Genstar Capital)</i>	InsuranceQuotes.com InsuranceLeads.com	Vertical Domination
Centerfield <i>(Platinum Equity)</i>	Digital Ventures Qology Direct	Industry Expansion Capabilities Expansion
Credit Karma <i>(Silver Lake)</i>	Noddle Approved Penny, OnePriceTaxes, Snowball	Geographic Expansion Industry Expansion Capabilities Expansion
Digital Media Solutions <i>(Formerly Clairvest Group)</i>	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 <i>(TA Associates)</i>	Neverbounce RainKing, ZoomInfo	Capabilities Expansion Vertical Domination
Hero Digital <i>(CI Capital Partners)</i>	Beyond Vigilant, Bulldog Solutions, Clock Four Delphic Digital, MaassMedia	Geographic Expansion Capabilities Expansion
Internet Brands <i>(KKR)</i>	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 <i>(ICV Partners)</i>	IMSolutions, Resource Solutions, RME Group LeadRival	Vertical Domination Capabilities Expansion
Mspark, Inc <i>(Court Square)</i>	Ad-Venture Magazine Market Select, National Mail-It, Stone Creek Media, Valu-Direct	Capabilities Expansion Geographic Expansion
OSG Billing Services <i>(Aquila Capital)</i>	AppRev, Windsor Circle, WhatCounts, Garfield Group, Miria Systems Diamond Communication ClickSpark, DoublePositive Communis	Capabilities Expansion Industry Expansion Capabilities & Industry Geographic Expansion
Propertybase <i>(Providence Strategic Growth)</i>	BoldLeads	Capabilities Expansion
Red Ventures <i>(Silver Lake)</i>	Allconnect, Bankrate, Choose Energy ExpertFlyer, MyFinance Soda.com Healthline, HigherEducation.com, Imagitas, Modern Consumer	Industry Expansion Capabilities Expansion Vertical Domination
SG360 <i>(ICV Partners)</i>	Data Service Solutions Rolvent Solutions Group	Capabilities Expansion Geographic Expansion
UpSwell <i>(Clearview Capital)</i>	Muscle Up Marketing	Industry Expansion
Vision <i>(H.I.G.)</i>	The Core Organization, SourceLink	Capabilities Expansion
WeddingWire <i>(Permira/Spectrum Equity)</i>	The Knot, Project Wedding, Gayweddings.com Bodas, Matrimonio.it Italia, Wedding Planner XO Group	Industry Expansion Geographic Expansion Vertical Domination
Xpressdocs <i>(Falcata Capital)</i>	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

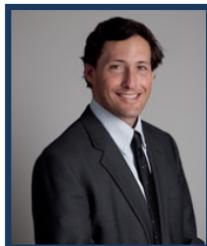


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