



Ecommerce Software M&A Market

Sector Trends and Valuation Analysis (2015—2017)

March 2018

BOIS CAPITAL

Contents

DISCLAIMER	03
ABOUT THE TEAM	04
ECOMMERCE M&A TRENDS	05
SUB-SECTOR TRENDS	06
CASE STUDY	08
PUBLIC PEERS	09
SIGNIFICANT M&A TRANSACTIONS	10



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About the team



Peter Benedict, Managing Partner

Peter Benedict co-founded Bois Capital in 2013. Most recently Peter served as Vice President and head of Alcatel-Lucent's Customer Experience Analytics business. Previously he was Director, Global Communications and Marketing at Bell Labs. Prior to Alcatel-Lucent, Peter held a series of strategy, product marketing, and communications roles at a number of networking, telecom, and enterprise communications start-ups as well as Ardent Communications, a tier one broadband service provider in the United States. Peter also headed up marketing for RADVISION, an Israeli videoconferencing infrastructure vendor.



Tarang Shah, Managing Partner

Tarang Shah co-founded Bois Capital in 2013. His telecom expertise includes education as BSEE; eight years as program/product manager for 3G product line at Qualcomm and Ericsson to Venture Capitalist at SoftBank Capital where he helped with investments in mobile/telco, digital media, and enterprise software startups. Prior to co-founding Bois Capital, Tarang was Senior Vice President at Bank of America Merrill Lynch and worked with leading technology startups in mobile payment and commerce to SaaS and Telco software. Tarang has reviewed 1200+ startups in his career and has assisted two dozen plus tech companies in venture and investment banking deals. He is an author of very popular book on venture capital (English, Chinese), *Venture Capitalists At Work*.

The Managing Partners are supported by Associates Nnenna Elumogo, Brian Yoo and Josie Yin.



Nnenna Elumogo, Associate



Brian Yoo, Associate



Josie Yin, Associate

Relevant Ecommerce and Software Related Transactions

 <p>has been acquired by</p>  <p>Bois Capital acted as exclusive M&A adviser to Shopial</p> 	<p>Sale of Israeli social ecommerce firm Shopial to Magento, the world's number one ecommerce software to form Magento Social which enables merchants to engage with audiences directly through social media channels.</p>	 <p>has been acquired by</p>  <p>Bois Capital acted as exclusive M&A adviser to Edgecase</p> 	<p>Sale of ecommerce Technology Platform Firm Edgecase to GroupBy, a leader in relevancy-focused ecommerce solutions, creating the most comprehensive cross-channel digital commerce solution on the market today.</p>
 <p>has been acquired by</p>  <p>Bois Capital acted as exclusive M&A adviser to PayDivvy</p> 	<p>Sale of PayDivvy, a social payment platform, that lets people split bills for utilities and other services, to a US public company Higher One (NYSE:ONE). focused on creating efficiencies for higher education institutions and providing high-value services to students.</p>	 <p>has been acquired by</p>  <p>Bois Capital acted as exclusive M&A adviser to Kanvas Labs</p> 	<p>Sale of Kanvas Labs,, headquartered in New York City, a video and visual messaging app maker to AOL (NYSE:AOL), to have a competitive edge over the Snapchat. AOL was recently acquired by Verizon (NYSE:VZ) for \$4.4 billion.</p>
 <p>has been acquired by</p>  <p>Bois Capital acted as exclusive M&A adviser to Branderati</p> 	<p>Sale of Branderati, headquartered in New York City focused on turnkey social media marketing platform for advocacy and influencers relations, to Sprinklr, a private US company that helps brands optimize valuable social experiences.</p>	 <p>has been acquired by</p>  <p>Bois Capital acted as exclusive M&A adviser to Cloudbearing</p> 	<p>Sale of Cloudbearing, a US firm focused on Microsoft software, to Comparesx AG, a private multi- billion dollar German company which specializes in license management, software procurement and technical product consulting.</p>

Ecommerce M&A trends

Leveraging low barriers to entry, broad reach, and lower costs over ‘bricks and mortar’, businesses are increasingly relying on websites and ecommerce software as digital storefronts as well as marketing tools to drive sales.

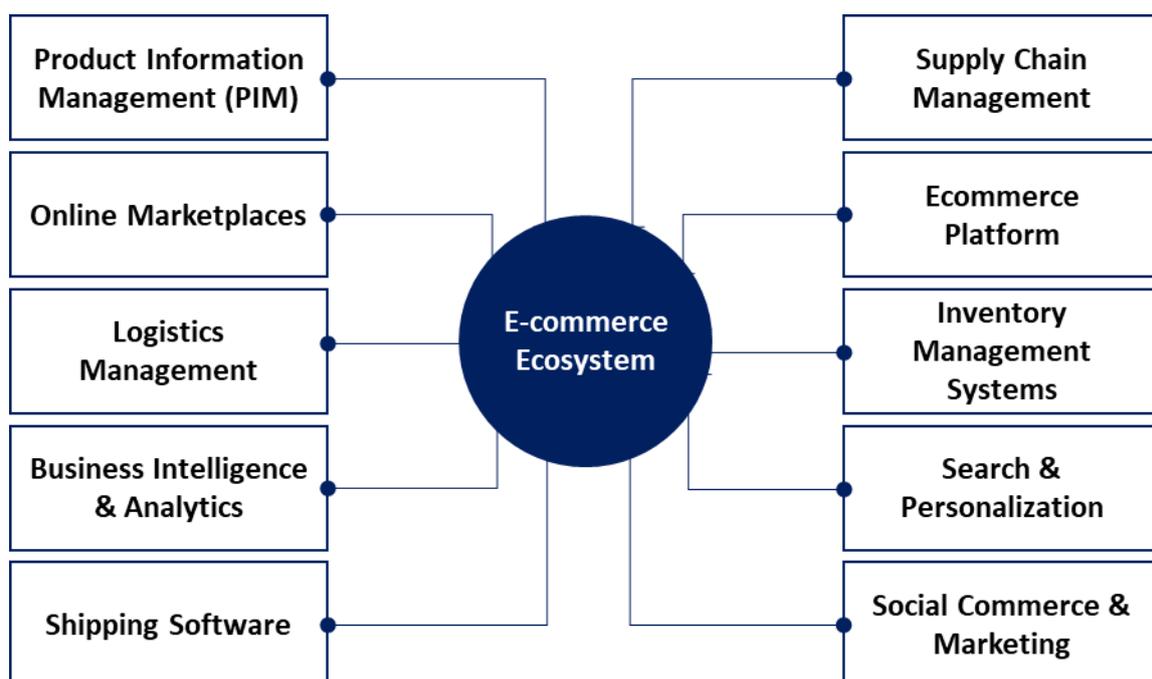
As a result, ecommerce software providers are making huge investments to build out new functionality around personalizing and optimizing user experience, making products more searchable and site visits more sticky, changing how goods are payed for and shipped, and even how products are promoted both in their own portals and across new social platforms including Facebook and Pinterest.

This is driving consolidation in the ecommerce sector as companies start looking to provide a single platform that offers many or all elements of an end-to-end ecommerce experience. For example, linking product attribution functionality with PIM (Product Information Management) and then driving that product information into tools to optimize site and search personalization. A good example of this is Magento’s acquisition of both RJ Metrics for ecommerce site analytics and Shopial (Bois Capital acted as exclusive sell-side banker for Shopial) to mirror and promote Magento-hosted sites and products onto Facebook, Pinterest, etc.

Offsetting this natural drive to consolidation is the ‘opening’ of the ecommerce ecosystem lead to a boom in new entrants. Ecommerce software like Magento, Wix, Squarespace, Zoey, etc. now featuring ‘libraries’ of third party applications where additional functionality, powered by these third party players via API, can be easily ‘turned on’ for a nominal extra monthly fee with a click of a mouse.

The impact of this shift cannot be understated. With this new API-driven ecosystem, the barrier to entry is dramatically reduced as companies do not need to be full “products” but can be “features” to larger platforms. This opens the door to great ideas that otherwise would not have been possible as innovators can raise and spend small capital to build out a compelling add-on functionality.

The above trends, a natural growth in new entrants and consolidation by larger firms, bodes well for continued momentum in ecommerce M&A.



Noteworthy Sub-Sector Trends

<p>Increasing Use of Predictive Analytics and Tracking Software</p>	<p>Rapid adoption of predictive analytics has triggered a round of consolidation as ecommerce majors and software vendors look to acquire innovative capabilities. Predictive analytics is now an integral part of customer engagement, something which Forrester terms as “predictive apps” and believes will eventually result in hyper-individualized customer experiences as part the digital disruption currently underway. It applies to the various stages of the ecommerce value chain, starting from sharper customer targeting to supply chain analytics designed to optimize costs and channelize investments more effectively. While eBay and Alibaba rely on predictive analytics to engage with existing and new suppliers to mitigate supplier risks, India-based Flipkart is working on a project that leverages analytics to forecast demand and improve delivery times. While some of the capabilities have been developed organically, consolidation has also speeded up. Representative acquisitions include eBay’s December 2017 acquisition of Terapeak, a Toronto-based startup that leverages data around supply, demand, and pricing in order to arm merchants with the information to sell their goods and Magento Commerce’s acquisition of RJMetrics, a cloud-based analytics platform tuned for digital commerce business intelligence in August 2016. eBay has also invested in predictive model research to reduce the time its users spend finding preferred products. It acquired learning engine startups SalesPredict and Expertmaker in 2016.</p>
<p>Growing interest in Artificial Intelligence and Machine Learning Capabilities</p>	<p>Ecommerce companies are increasingly using artificial intelligence (AI) to develop a better understanding of their customers, generate new leads and provide an enhanced customer experience. As such, they have access to massive data sets around customer behavior and usage patterns which is now being utilized to offer personalized shopping experiences leveraging AI and self-learning algorithms. As per Gartner, this is part of a wider trend wherein customers will manage 85% of their relationship with the enterprise without interacting with a human, by 2020. Consequently, ecommerce companies are increasingly shifting towards chatbots’ AI-driven natural language processing and machine learning capabilities for automated conversations with the buyers. Amazon has been very acquisitive in this space with notable transactions being its acquisition of AI security startup harvest.ai for around \$20 million, along with Orbeus, Angel.ai and Graphiq. eBay has also been active in the space having acquired Sweden based artificial intelligence and analytics company Expertmaker and Israeli Big Data start-up, SalesPredict in 2016.</p>
<p>Consolidation in Payment Ecosystem</p>	<p>Payment is increasingly taking a very important role in ecommerce offerings, leading to acquisitions or partnerships of or with payment players. Banks and other players in the ecommerce ecosystem have played a major role towards making ecommerce ubiquitous, thanks to their role in providing a secured online platform to pay effortlessly via payments gateways. Online transaction volumes have grown exponentially, owing to the convenience and increasing security it offers, leading to development of new technologies such as e-wallets. The global transactional value of e-wallet payments in 2012 was \$295 billion, or 17% of the payments market. By 2017, WorldPay estimated that the volume has jumped to \$1.36 trillion and the share has risen to 41%. BCG estimates digital payments to touch \$5 trillion by 2020.</p>

Noteworthy Sub-Sector Trends

<p>Consolidation in Payment Ecosystem (continued..)</p>	<p>This trend has coincided with several major acquisitions in the digital payments space, such as PayPal’s acquisitions of Paydiant and Xoom in 2015 to expand its digital payments business and Paysafe’s acquisition of Skrill, a digital wallet solutions and online payment processing company in 2015. As market leaders such as PayPal and Payoneer have expanded globally, through acquisitions and organic growth, local incumbents such as Paytm (India) and AliPay (China) have also emerged offering a range of online payment platforms that facilitate easy payment for ecommerce businesses.</p> <ul style="list-style-type: none"> • In 2017, Avangate, the global ecommerce and subscription billing platform acquired 2Checkout, a global payment processor to expand payment flexibility and broaden market reach • In 2016, Amazon acquired Emvantage to develop its Indian ecommerce site’s payment platform, Payoneer acquired Armor Payments to provide online escrow services while Visa bought CardinalCommerce for ecommerce authentication tools
<p>Demand for Delivery Platforms</p>	<p>The shifting dynamics of last-mile delivery and growing demand for next or same day delivery is driving consolidation in the delivery platforms space. Ecommerce companies have been focusing on reduction of lead time through the use of niche delivery platforms and drone & droid based delivery technologies. Major acquisitions that highlight this trend includes Target’s acquisition of Grand Junction, a startup that manages same-day deliveries and Wal-Mart’s acquisition of New York-based last-mile delivery startup, Parcel. Apart from these deals, Amazon has started drone delivery R&D in Cambridge to expand its drone delivery effort for Amazon Prime Air, its drone-based delivery system. Aha, the online marketplace in Iceland, has partnered with the Israeli drone company Flytrex to expand its delivery options.</p>
<p>Emergence of Virtual Reality Technology</p>	<p>Leading ecommerce solution providers like Shopify, X-Cart and eBay are looking at the virtual reality (VR) space to enhance customer experience. These companies are taking the first steps towards Virtual Reality in online retail and developing storefronts optimized for VR-glasses and helmets using the WebVR technology. A few recent cases are:</p> <ul style="list-style-type: none"> • Walmart has acquired a small virtual reality shop, called Spatialand, to be the centerpiece of VR efforts that the company hopes will someday transform the shopping experience across the company’s different websites and stores • Amazon has acquired 3D body model startup, Body Labs company with a stated aim of creating true-to-life 3D body models to support various b2b software applications — such as virtually trying on clothes or photorealistic avatars for gaming. Body Labs has developed software that allows Fashion Brands and other Businesses to integrate their API and let their customer try outfits or any product that has something to do with the body through its 3D motion scanning method. Apart from these deals, Amazon in 2017 launched Amazon Sumerian, a new platform for developers to build and host VR, AR and 3D apps quickly and with minimal coding, for smartphones and tablets, head-based displays, digital signage and web browsers

Case Study

Salesforce.com’s acquisition of Demandware

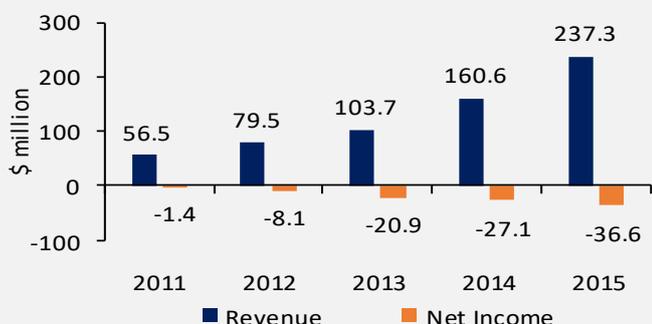


On 1st June 2016, it was announced that Salesforce.com has signed a definitive agreement to acquire Demandware, a cloud-based provider of ecommerce services to digital businesses. Salesforce paid \$2.8 billion in an all-cash deal for Demandware, which was the company’s largest acquisition till date, overtaking the \$2.5 billion acquisition of ExactTarget in 2013.

Financial Terms:

The all-cash deal valued Demandware at \$75 per share, represented a 56.3% premium over its last closing price. The steep premium was indicative of the presence of other bidders such as Adobe Systems and Oracle, although this was unconfirmed. The price paid is even more significant considering that Demandware’s share price had fallen 21% in the past year in the run-up to the transaction.

Demandware Financial Performance



Demandware Share Price Performance



Valuation

The purchase price represented a revenue multiple of approximately 11.8x Demandware’s FY 2015 annual revenue of \$237 million. While this was a steep valuation for a company which reported a loss of \$37 million in FY 2015, it also highlighted the strategic importance of Demandware in Salesforce’s growth plans.

Acquisition Rationale

While there was consensus that Salesforce had paid a massive premium to acquire Demandware, there was also agreement that the valuation was justified on account of strategic considerations. As per Gartner, global spending on digital commerce platforms is expected to grow over 14% annually to about \$8.5 billion by 2020. This represents a major growth opportunity for Salesforce, which views ecommerce as the missing element in its customer relationship management (CRM) product portfolio. Demandware being a market leader in the omni-channel order management and ecommerce market, offered significant synergies to Salesforce. Demandware is likely to be the foundation of another business unit or cloud joining Salesforce’s existing Sales, Marketing, Service and upcoming IoT clouds. The transaction was in line with similar strategic moves with SAP acquiring ecommerce software supplier Hybris in 2013. Oracle and Adobe had also been scouting around for acquisition opportunities to build their own ecommerce cloud, the latter being rumored to be looking at Magento or Shopify at the time of the Demandware deal. In fact, Salesforce’s move towards ecommerce can be traced back to September 2014, when it formed a partnership with CloudCraze, an enterprise ecommerce software, to bolster its B2B capabilities. Salesforce committed \$20 million in CloudCraze’s venture funding round in 2017, which is indicative of the efforts that the company is making to establish a strong presence in the B2B space, where sales management offers considerable scope for disruptive change in the form of self-service ecommerce processes. Added to this, Salesforce has a successful track record in large integrations, going by its experience with ExactTarget and is likely to be a major player in the ecommerce software market.

Analyst Commentary

“This acquisition gives Salesforce just-add-water ecommerce with an impressive client list, \$100 million in incremental revenue, and a leadership team experienced in ecommerce.”. With Demandware’s roots in serving retailers, “Salesforce will focus first on business-to-consumer ecommerce, but B2B ecommerce won’t be far behind,” **Andy Hoar, principal analyst at Forrester Research Inc.**

Ecommerce Software/Platform – Valuation Analysis

As seen directly below, public companies in the ecommerce sector are trading at a revenue multiple of **4.1x**.

While publicly disclosed M&A transaction per the following pages only result in an average multiple of **2.7x revenues**, this is not a statistically large enough sampling to be a reliable yardstick for M&A ecommerce transactions.

Bois Capital's own experience suggests a wide range of multiples with **3-5x trailing twelve months revenue** being the most consistent theme for companies with solid products and financials.

Ecommerce Software/Platform – Public Company Valuations

Company	Ticker	Enterprise Value (\$M)	Revenue (\$M)	Enterprise Value / Revenue
PayPal Inc.	PYPL	85,300	12,331	6.1x
Shopify	SHOP	11,095	1,156	9.6x
VeriSign Inc.	VRSN	5,577	1,189	4.5x
Baozun Inc.	BZUN	1,508	583	2.5x
Endurance International	EIGI	1,299	1,175	2.7x
Commerce Hub	CHUB.K	917	107	8.5x
SPS Commerce	SPSC	835.7	213	3.1x
Tech Target	TTGT	379	105	3.7x
Channel Advisor	ECOM	229	120	1.5x
Intershop Communications	ISH2	49.94	34	1.3x
Bridgeline Digital	BLIN	10	16	0.63x
Attraqt	ATQT	33	4	8.25x
CloudCommerce	CLWD	3	3	1.0x
Mediagrif Interactive Technologies Inc.	MDF	163	79	2.3x
Median				4.1x

Ecommerce Software M&A Market - Sector Trends and Valuation Analysis (2015—2017)

Ecommerce Software/Platform – Recent M&A (with valuations where available)

Closed	Target	Acquirer	Target Description	Enterprise Value (M)	Revenue Multiple
Pending	Mataris	Lelong.my	Mataris is a performance-led full service digital agency	NA	NA
Pending	Focus Education Holding	Focus Technology Holdings	Provides B2B ecommerce services for small and medium-sized enterprises	TWD 54.54	NA
Pending	Communication Global Certification	Google, Inc.	Provides testing and certification on mobile phones	\$1,100	NA
Pending	Lyons Consulting Group	Capgemini	Engages in the design and development of ecommerce systems.	NA	NA
Pending	Task360	BeMyEye	Task is an app based data collection system	NA	NA
Pending	Unata	Instacart	Unata is the leading provider of 1-to-1 digital solutions for grocery retailers	NA	NA
Pending	Bealder, SAS	E-Retail Development	Creates point of sale digital communication tools and devices	NA	NA
Pending	Fredhopper	Attract	Provides merchandising and marketing optimization software for ecommerce	NA	NA
Pending	Leapforce Inc.	Appen Limited	Develops a search relevance platform	\$80	1.7x
Pending	Cyren Ltd.	WP XII	Information security solutions for protecting Web, email, and mobile transactions	\$119	3.8x
Pending	Cmpute.io	Cisco	Cmpute.io operates as a cloud solutions provider	NA	NA
Pending	Midtrans	GO-JEK	Provides online businesses in Indonesia with a payment infrastructure that is safe, reliable, and fraud-free	NA	NA
Pending	Terapeak	EBay	Provides ecommerce market analytics, dedicated to helping online merchants grow their business	NA	NA
Pending	And Co	Fiverr	A smartphone-based application that enables its users to create invoices, file expenses, and manage projects	NA	NA
02/15/18	Valtech	True Clarity	Specialised in in .NET, Sitecore, DevOps, ecommerce, big data, mobile web and cloud	NA	NA
02/01/18	GymForLEss	Sodexo Espana	Develops and operates an online platform that helps users to find gyms and fitness centers in their surroundings	NA	NA
01/30/18	Mezi	American Express	A personal travel assistant app that helps consumers plan and book trips	NA	NA
01/30/18	Angoss Software	Datawatch	Provider of predictive analytic software designed to discover valuable insights and intelligence in their data	\$24.5	3.3x

Ecommerce Software M&A Market - Sector Trends and Valuation Analysis (2015—2017)

Ecommerce Software/Platform – Recent M&A (with valuations where available)

Closed	Target	Acquirer	Target Description	Enterprise Value (M)	Revenue Multiple
01/25/18	Movie La La	Gyfcart	A marketing platform to help movie marketers increase the buzz, awareness and engagement of upcoming movies	NA	NA
01/24/18	Dada, S.p.A	HgCapital Mercury 2	Offers domain name registration services for online identity; Web hosting services; and ecommerce solutions	\$26	1.5x
12/18/17	SellPoints Inc.	Branded Response Inc.	Operates a consumer insights platform that enables brands and retailers to see the impact of their product selling methodologies live	NA	NA
12/7/17	Little	Paytm	Little is a hyper-local app that helps to find the best deals on restaurants, movies, hotels, salons, gyms, spas etc.	NA	NA
11/27/17	WumDrop	Makro	Offers transit and courier services through online booking	NA	NA
11/24/17	Anisa Group Ltd.	Sanderson Group plc.	Provides software solutions for manufacturing, logistics, retail, and wholesale distribution	£11.8	1.2x
10/18/17	Mozu	Kibo Software	A cloud commerce platform that helps enterprises to manage their entire online presence	NA	NA
10/05/17	Groupe AFG	Neo-Soft Services, SAS	Ecommerce services and security	NA	NA
09/26/17	Bitium Inc.	Google, Inc.	Provides cloud-based identity and access management solutions and analytics for SMEs	NA	NA
09/12/17	Lockey SPRL	Isabel NV/SA	Develops application program interfaces for banking industry	NA	NA
08/29/17	ARI Network Services, Inc.	True Wind Capital	Provides SaaS, DaaS, and other solutions to equipment manufacturer and distributors	\$137.83	2.7x
08/01/17	Parscale Creative	CloudCommerce Inc.	Provides enterprise digital marketing services	\$9	NA
07/26/17	Sophia Search Limited	Aiqudo, Inc.	Ecommerce software that automatically creates a link between the written word and ecommerce transactions	NA	NA
06/30/17	Sunlight Systems	Net Direct	Develops and rents tailor-made e-shops, websites, and portals	NA	NA
06/20/17	TriCore Solutions	Rackspace Hosting, Inc.	Offers managed application and infrastructure, cloud, infrastructure hosting, consulting services	NA	NA
06/06/17	TradeMotion LLC	The Reynolds and Reynolds Comp.	Online automotive parts catalog software and ecommerce solutions for automotive industry	NA	NA

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Ecommerce Software/Platform – Recent M&A (with valuations where available)

Closed	Target	Acquirer	Target Description	Enterprise Value (M)	Revenue Multiple
06/05/17	Edgecase	Groupby	Provides shopping software that allows people to browse online for clothes	NA	NA
05/11/17	Oberlo	Shopify	A platform that connects merchants with suppliers who ship products directly to consumers	\$15	NA
4/18/17	Shopial Inc.	Magneto Commerce	Operates an online platform, which allows businesses to integrate online stores into Facebook and Pinterest fan pages	NA	NA
10/03/16	Boltmade	Shopify	Offers software development services and focuses on cloud development, user experience research, and mobile design	NA	NA
09/27/16	Baynote	Kibo Software	Provides personalized customer experience solutions for multi-channel retailer	NA	NA
06/08/16	Conexus	PFSweb, Inc.	Ecommerce system integrator, systems integration, and consultancy services for omni channel commerce in the UK	\$7.3	NA
04/18/16	Kit CRM	Shop Inc.	Enables store owners to run targeted ads, post updates on their Facebook page, and make recommendations based on their store activities	\$8	NA
03/03/16	Powa Web	Greenlight Digital	A cloud-based ecommerce software that organizes payments across multiple sites, payment types, and currencies	NA	NA
08/05/15	Crossview Inc.	PFSweb, Inc.	An ecommerce integrator; delivers commerce strategy, technology, and other services across industries	\$55.37	NA
05/25/15	Nexternal Solutions Inc.	HighJump Software	Provides Web-based ecommerce software to large and small businesses	NA	NA
04/29/15	Clusterk, Inc.	Amazon Inc.	Cloud computing platform for high performance computing solutions	NA	NA
04/02/15	Paydiant, Inc.	PayPal Holdings	Enables merchants, banks, & partners to integrate mobile payments, loyalty, & cash access into a branded mobile app	\$230	NA
04/01/15	Cegedim, SA	IMS Health Holdings	Information Solutions and Customer Relationship Management Business to healthcare industry	\$385	0.9x
Median					2.7x

M&A Market and Process

Bois Capital brings deep sector understanding combined with a vast network of acquirers built over the course of many ecommerce-related transitions. This enables us to properly position the sale of a business differently to each adjacent subsector pool of potential acquirers—each of which will be looking at the asset slightly differently. This deep experience in ecommerce M&A, driving a competitive process, is the best path to finding the optimal exit in valuation and culture.

There are many adjacent sectors that are seeking to acquire in the ecommerce software space:

- ⇒ Ecommerce site builder platforms
- ⇒ Ecommerce professional services
- ⇒ Ecommerce ecosystem element providers
- ⇒ PIM and information management
- ⇒ Ecommerce personalization
- ⇒ Supply chain and inventory management
- ⇒ Private equity firms

In the course of recent transactions, Bois Capital has on average contacted well over 80 companies across the above categories. In our recent processes we have seen on average 20 or more companies signing NDAs, reviewing the Confidential Information Memorandum and speaking with management. While the engaged companies were different in most processes as each of our client firms represented a different value proposition to prospective acquirers, this general level of appetite shows a deep pool of potential acquirers who have wherewithal to pull off the transaction, leverage their existing customer relationships and distribution channels to integrate the solution, and create a sizeable offering in this space. These players are actively searching for the right acquisition targets.

The typical process for one to explore the market, determine interest in a strategic sale and complete the transaction is around five to six months. Bois Capital runs a very streamlined process to help secure the right strategic partner and valuation for its clients. Bois Capital has a deep sector experience, senior level connections and execution expertise in the ecommerce software and platform sector.

If you are interested in exploring your growth options including a strategic exit, Bois Capital will be happy to schedule a brainstorming session, discuss the dynamics of your business, the strategic fit with potential targets within the ecommerce ecosystem, provide valuation metrics, and confidentially discuss the next steps.

BOIS CAPITAL

Peter Benedict
Managing Partner
New York
315 Madison Ave, Suite 3069
New York, NY 10017
T: +1-908-242-0829
Email: peter@boiscapital.com

www.boiscapital.com

BOIS CAPITAL

Tarang Shah
Managing Partner
California
620 Newport Center Drive, Suite 1100
Newport Beach, California 92660
T: +1-858-213-6700
Email: tarang@boiscapital.com

www.boiscapital.com

This sector report was developed in part by Bois Capital Associates Nnenna Elumogo and Brian Yoo