

M&A market report 1H2023

# Digital Commerce





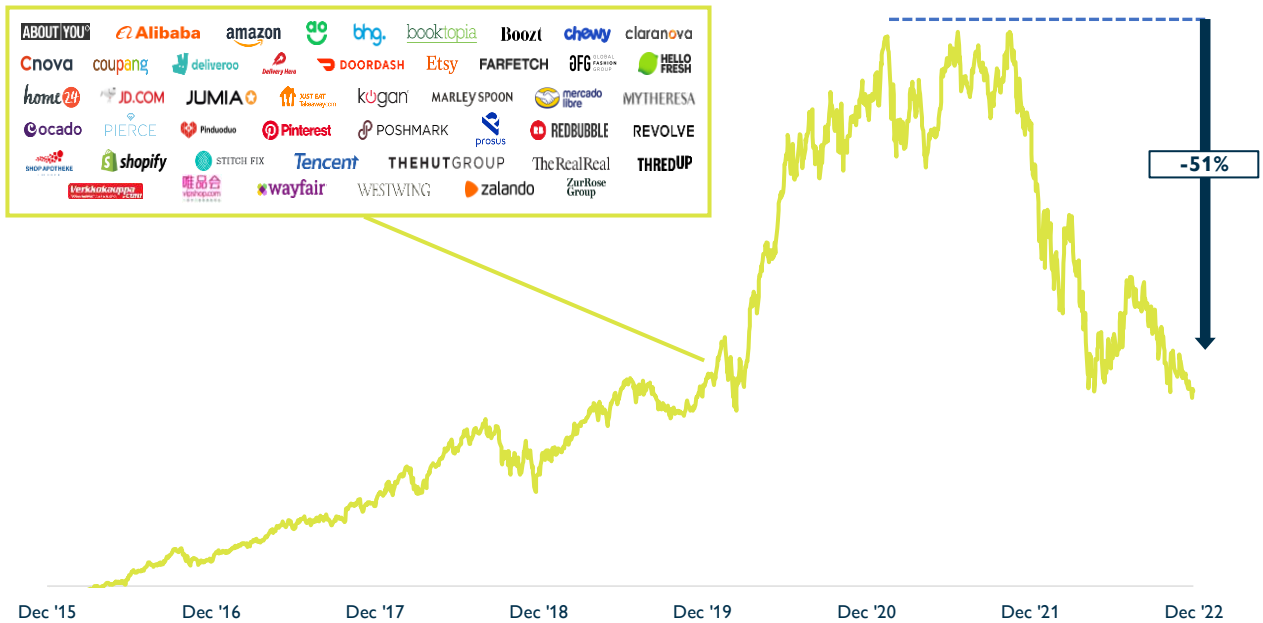
## 2022: Back to (new) normal?

### Waking-up from a pandemic-induced high

As seen in the M&A activity during the pandemic years of 2020 and 2021, the Digital Commerce sector was flying high. From one day to the other, COVID caused a massive acceleration of digitalisation in the industry and society. However, in 2022, we saw a decline in number of transactions. Political and economic uncertainties have affected investor moods – the private and VC sectors have seen a massive decline in deals over the past year, as have publicly listed companies.

The Global Online Retail (GLORE50) index below clearly illustrates this development. Since the pandemic high in 2021, the global index share price has dropped by whopping -51%. The deal activity in the private sector, on the other hand, by -9%. That said, for M&A in Digital Commerce business public markets are currently not the right proxy and therefore not directly comparable or relevant for the market’s transaction volume. We see the Digital Commerce M&A market as a stable, mature, and resistant market within the global economy.

Evolution of the Global Online Retail “GLORE50” index share price, 2016-present



Source: 451 Database, S&P CapitalIQ, Hambleton Research.

### Is it a new normal?

Despite seeing a decline in deal activity in the sector, many people are still bullish about the developments of the Digital Commerce M&A market. They see the decline in deal volume from 2021 to 2022 as a normalisation of a high phase during the pandemic – or in other words, as the ‘new normal’. They believe that the lack of euphoria within the market is merely caused by the comparison of 2022 results with the pandemic highs of 2021.

However, overall, we are seeing a stabilizing and slowly increasing deal count in some of our subsectors, as well as positive new developments and long-term trends that are holding up the market segment.



## M&A summary

### Digital Commerce M&A normalising after a record-breaking start to 2022

From the end of 2020, M&A volumes in Digital Commerce experienced a steep increase, with breaking records in every quarter. COVID as an accelerator of digitalisation in 2020 and 2021 increased the investors interest in the thriving Digital Commerce sector. The category underwent an unprecedented growth spurt of +38% in those years. In 2022 the category saw a total of 2,167 deals, which is a -9% decrease to the record-breaking figures of 2021.

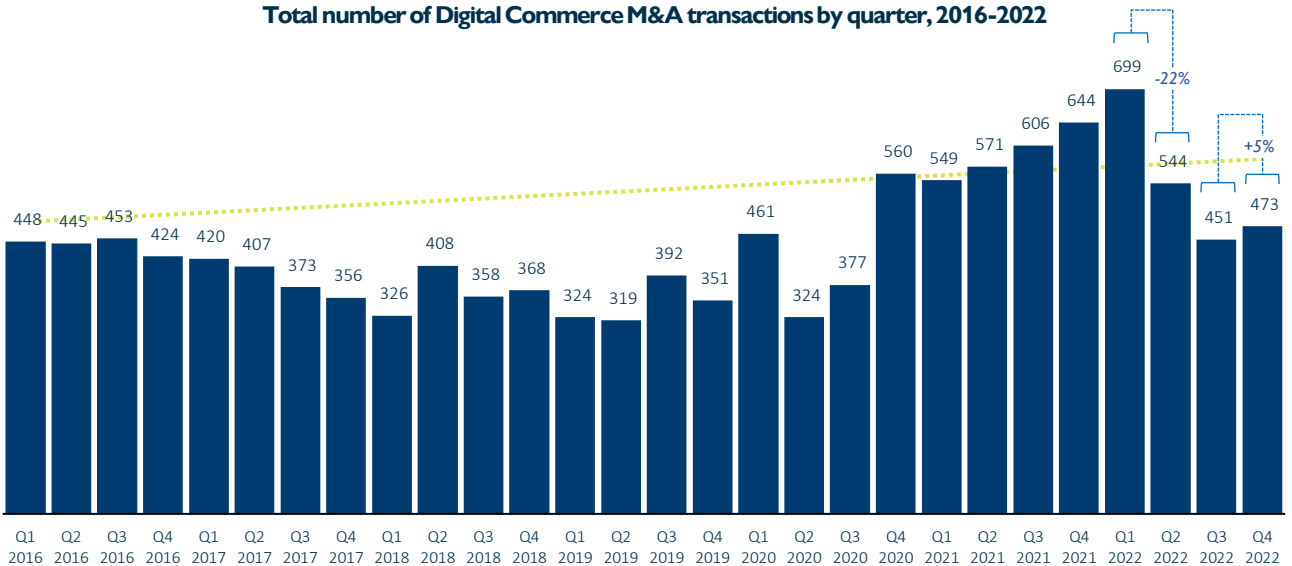
The investors bullishness in the Digital Commerce M&A market was exhibited in the record-high deal volume in the first quarter of 2022. The downturn in the second quarter by -22% is in line with the overall decline of the M&A market. Political and economic uncertainties, as well as the market’s inherent inclination to normalize

after a period of high activity and volatility, have caused this downswing.

A +5% uptick in deal activity was seen in the last quarter of 2022. Deal volumes are normalising at a higher level (north of 450 deals) than in 2016-2019, where we saw a deal average of 385. Active acquirers have decreased from 14% to 7% in 2H 2022. This reservation of the formerly notorious buyer group makes a significant difference to deal volumes in the market. As we know that the acquirer’s funds are filled, we assume that the backward trend is a result of acquirers becoming more selective and diligent with their acquisitions.

We know that events at the beginning of 2022 had impacted investors moods. We see a stabilisation of deal activity at a ‘new normal’ in the Digital Commerce sector for 2023.

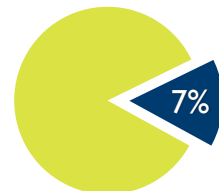
Total number of Digital Commerce M&A transactions by quarter, 2016-2022



Source: 451 Database, S&P CapitalIQ, Hampleton Research.



Number of active acquirers in the past 30 months



Share of active acquirers that made >1 acquisition in 2022



## Top acquirers of Digital Commerce targets, 2020-2022

Acquirers	Acquisitions in 30 months	Three notable Digital Commerce acquisitions
<b>EMBRACER+ GROUP</b>	19	<p><b>Crystal Dynamics Inc.</b> – Video game developer</p> <p><b>Square Enix Holdings Co. Ltd.</b> – PC, console &amp; mobile games developer</p> <p><b>Aspyr Media Inc.</b> – Video game developer &amp; publisher</p>
<b>Tencent 腾讯</b>	15	<p><b>Shift Up Corporation</b> – Game design and development studio</p> <p><b>Inflexion Studios Inc</b> – Game design and development studio</p> <p><b>1C Entertainment S.A.</b> – Game design and development studio</p>
<b>animoca BRANDS</b>	11	<p><b>TinyTap Limited</b> – Educational games SaaS</p> <p><b>WePlayMedia Holdings LLC</b> – Game design and development studio</p> <p><b>BDVLOU</b> – Digital assets payment SaaS</p>
<b>accenture</b>	10	<p><b>MacGregor Partners, LLC</b> – SCM SaaS &amp; consulting services</p> <p><b>Openmind Srl</b> – E-Commerce consulting services</p> <p><b>LEXTA GmbH</b> – Technology consulting services</p>
<b>Klarna.</b>	8	<p><b>flexEngage Inc.</b> – POS &amp; marketing automation SaaS</p> <p><b>Inspirock Inc.</b> – Online travel planning services</p> <p><b>PriceRunner International AB</b> – Online platform for price comparison services</p>
<b>cart.com</b>	8	<p><b>WordWatch Inc.</b> – Product data feed optimization SaaS</p> <p><b>SellerActive Inc.</b> – E-commerce SaaS &amp; services</p> <p><b>180Commerce LLC</b> – E-commerce marketing SaaS &amp; services</p>
<b>Microsoft</b>	7	<p><b>TakeLessons Inc.</b> – Online instructor directory</p> <p><b>Suplari Inc.</b> – Procurement data analytics SaaS</p> <p><b>Tantalus Media Pty Limited</b> – Video game developer</p>
<b>Sony Interactive Entertainment</b>	7	<p><b>Valkyrie Entertainment, LLC</b> – Video game developer</p> <p><b>Nixxes Software B.V.</b> – Video game design, development, and porting</p> <p><b>Tiger Media International GmbH</b> – Electronic publishing of children's books.</p>

Source: 451 Database, S&P CapitalIQ, Hambleton Research.

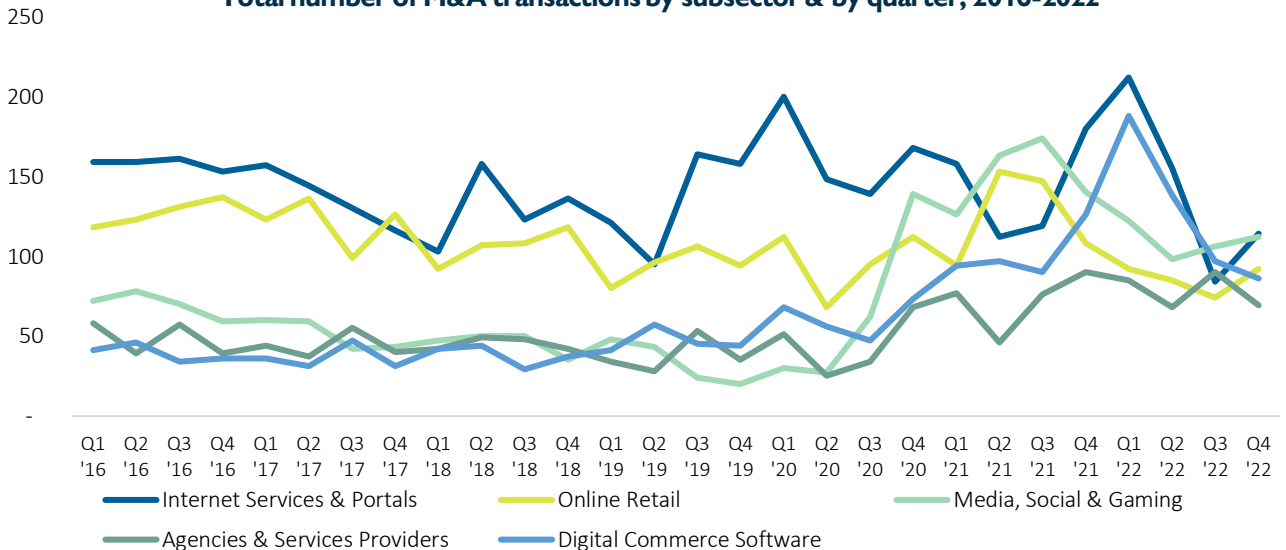


## Subsector breakdown

### Share of deal count by subsector in 2H 2022



### Total number of M&A transactions by subsector & by quarter, 2016-2022



Source: 451 Database, S&P CapitalIQ, Hampton Research.

The breakdown of the subsectors shows the development of M&A transaction in each subsector over time. While transactions in the sector of Agencies & Service Providers have seen a steady increase, the rest of the sectors have seen a downturn since the beginning of 2022.

The Media, Social & Gaming sector has managed to catch up in terms of deal volume since the pandemic. We saw a large majority of active acquirers in 2022 invest in targets in the Gaming sector.

The steepest decrease, on the other hand, can be seen in deals targeting Internet Services & Portals with a decrease of -37% in Q4 2022 compared to last year's Q4. This is followed by the Digital Commerce sector, which experienced a -31% decline in the same timeframe.

Interestingly, deals targeting Agencies & Service Providers have increased by +8% over the year, compared to 2021. Currently, all five segments are seeing roughly equal transaction volumes.



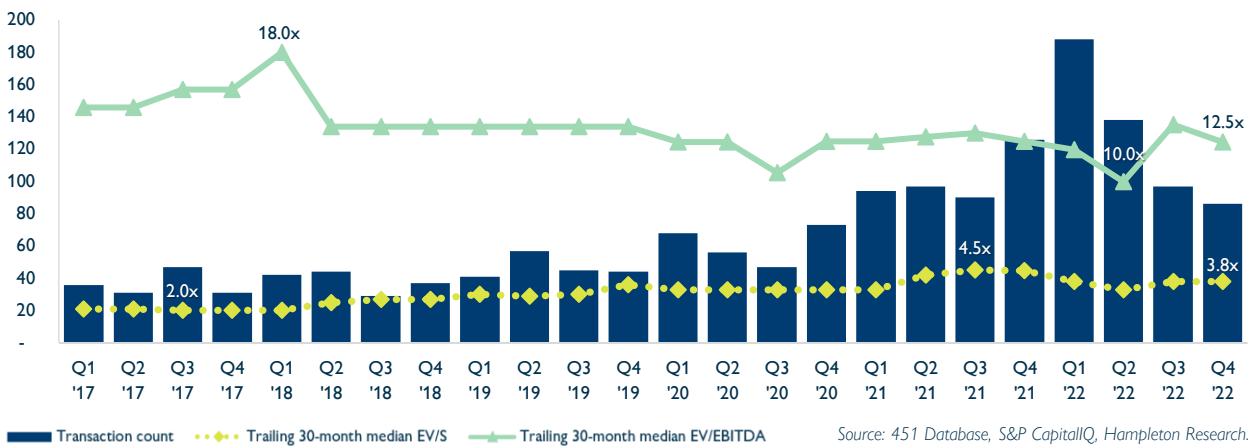
# Digital Commerce Software

## Deal activity saw a steep decline from Q1

Transactions in the Digital Commerce Software sector are coming down from a historically unprecedented high in Q1 2022, which was partially caused by a delayed closing of deals from 2021. Overall, the transaction count increased by +25% from 2021 to 2022. We are assuming a normalisation of the 'hot' market with values stabilizing at a new level.

given the current market sentiment and downturn in deal numbers. However, the reality for 2022 was that fewer deals targeting attractive companies created stable multiples as well as some remarkably high valuations. Clearly, successful and promising companies still enjoy a healthy M&A market, and there is competition among investors.

The trailing 30-month EBITDA multiples reached 12.5x in the final quarter of 2022 – a rather high multiple



Source: 451 Database, S&P CapitalIQ, Hambleton Research. All trailing 30-month median multiples are calculated as the median value of all disclosed multiples in the sector over the past 30 months. This calculation method helps smooth out the data which, if presented on a quarterly basis, would be skewed by extremely high or low values.

## E-Commerce payment SaaS a pursued target

Over the last two years, payment solutions have been a prevailing target for acquirers worldwide. In total, 22 targets offering digital commerce payment technologies were sold.

One of the top-3 largest disclosed transaction includes the acquisition of Credorax Bank Ltd. (trading under 'Finaro') by Shift4 Payments LLC, a NYSE-listed American payment processing company for \$575m. Finaro is a global payment provider that was established to address the problem that 30% of online shopping is cancelled after the clearing bank (usually in the US or UK) refuses to approve transactions with customers from distant countries. Shift4's investment rationale behind the deal was to enlarge the current service offering.



In September 2022, the Swedish private equity company EQT acquired BTRS Holdings Inc. (known as Billtrust) for \$1.6bn in a go-private transaction. Billtrust offers cloud-based software and integrated payment processing solutions that simplify and automate digital commerce.



E-commerce encompasses online payment technologies. Heavy investments into these technologies are fueling the growth of the entire e-commerce space as they facilitate online shopping for both consumer and merchants. They make payments for customers faster, safer, more transparent. For merchants they open a door them to offer their products and services online, making their online shops more customer friendly, safe, and standardised.

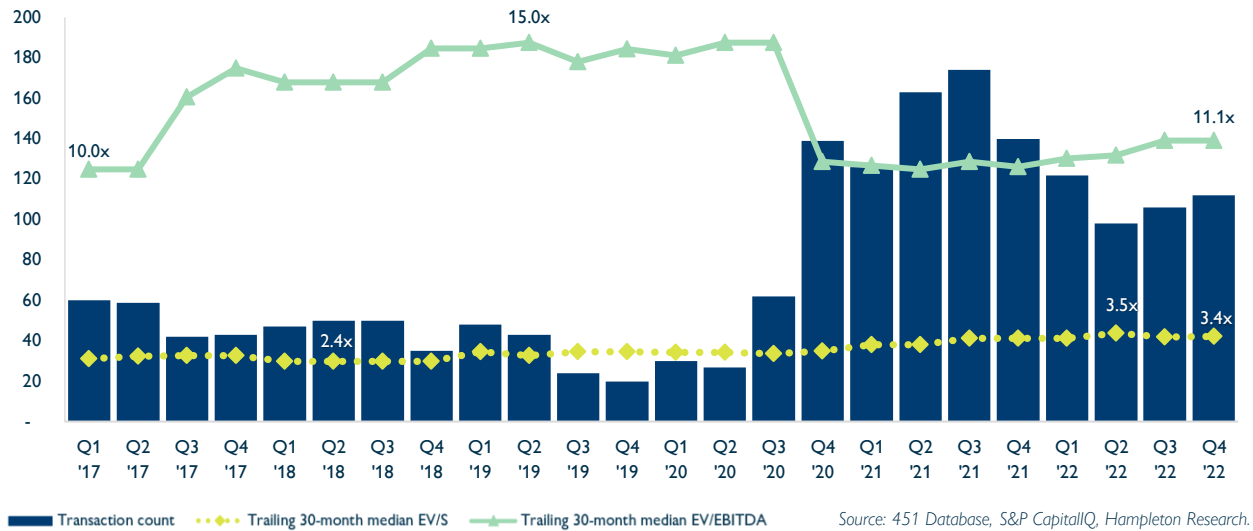


## Media, Social & Gaming

### Deal volume on a new level, valuations on the rise

As expected, the Media, Social & Gaming sector was transformed with the onset of COVID in Q4 2020. Result was that transaction volumes rose by 134% from 2020 to 2021. In post-pandemic 2022 the transaction count declined by -27% to 438 with the normalisation of the market at a higher 'new normal' than pre-pandemic.

Trailing 30-month EBITDA multiples inched upwards to a healthy 11.1x, while the corresponding revenue multiple was stable at 3.4x.



Source: 451 Database, S&P CapitalIQ, Hambleton Research.  
All trailing 30-month median multiples are calculated as the median value of all disclosed multiples in the sector over the past 30 months. This calculation method helps smooth out the data which, if presented on a quarterly basis, would be skewed by extremely high or low values.

### GamingTech in high demand in the whole sector

Over the last two years, we saw a record number of around 97 deals in online gaming category within the sector. The most active acquirers over the last 30 months were all acquirers of gaming companies.

In April, the publicly listed British company International Game Technology PLC (IGT) acquired the Maltese, leading i-gaming content provider and third-party game aggregator ISBT Holdings Ltd for \$174 million at a revenue multiple of 5.33x and an EBITDA multiple of 20.0x.

It operates and provides gaming technology products worldwide. The investment case behind this acquisition includes the access for IGT to IP content, game aggregation capabilities, analytics, and strong creative talent.



In May, Skybound Game Studios Inc., a US-based entertainment production company, acquired the Danish gaming developer 5<sup>th</sup> Planet Games A/S for ca. \$8 million at a revenue multiple of c. 5.96x in a majority acquisition.

Skybound is a leading entertainment company with top tier IP in print, gaming, and film (like The Walking Dead and Invincible).

According to Skybound, their investment rationale primarily included the access to scarce human capital in the area of interactive entertainment in Europe.



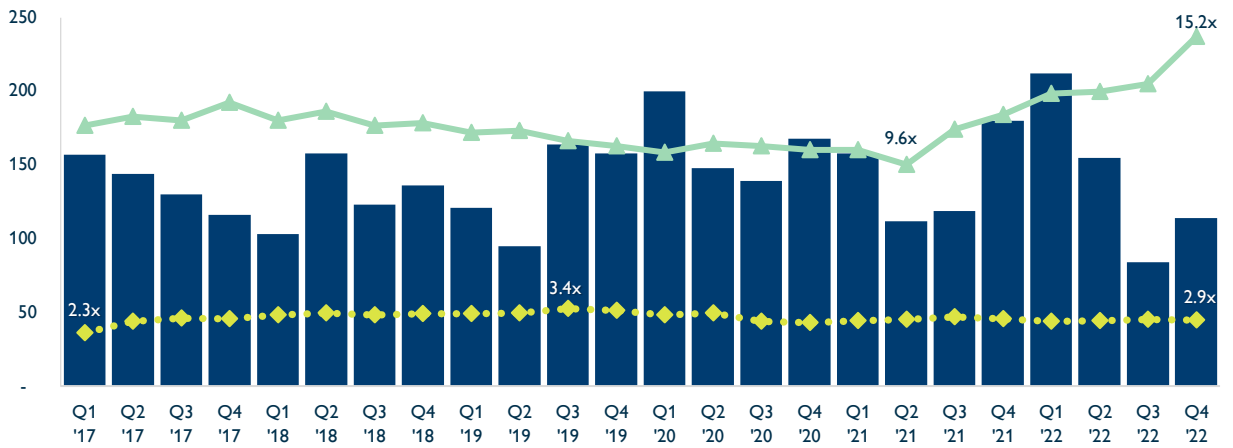


## Internet Services & Portals

### Deal volume and valuations back on the rise

In comparison to other sectors within Digital Commerce, transaction volumes in the Internet Services & Portals sector was relatively stable throughout the past six years. Despite quarterly fluctuations, the overall market did not experience a significant volatility in transactions – even during the pandemic. With 569 transactions in 2021 to 565 in 2022, the sector saw only a -1% decline.

While revenue multiples have been stable over the past six years, EBITDA multiples saw an uptick from 11.9x in Q4 2021 to 15.5x in Q4 2022. As with Digital Commerce Software, this is a high 30-month median given the current market sentiment. But 2022 proved to be a solid year for attractive companies which benefited from more selective buyers or investors and stable multiples, as well as some remarkably high valuations.



Source: 451 Database, S&P CapitalIQ, Hampton Research.

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### AutoNation

In December 2022, AutoNation Inc, a US-based on-site and online auto retailer, acquired RepairSmith Inc for \$190million. The 2018 founded target is a full-service mobile solution for automotive maintenance and repair headquartered in California with operations all over the US.

Listed on the New York Stock Exchange, AutoNation (1991) is one of America's largest automotive retailers with over 12 million customers and 21,000 employees. The investment case includes the aim of acquiring additional capabilities and a customer base of vehicle owners who have purchased their vehicle outside of the AutoNation network.



In November this year, AutoNation acquired a minority stake (6%) in the NASDAQ-listed TrueCar Inc (2005). The US-based company provides an automotive pricing and information website for new and used car buyers.

It delivers an end-to-end way for customers to navigate their car journey. This minority acquisition opens doors to collaborate in providing a unique digital buying and selling experience.





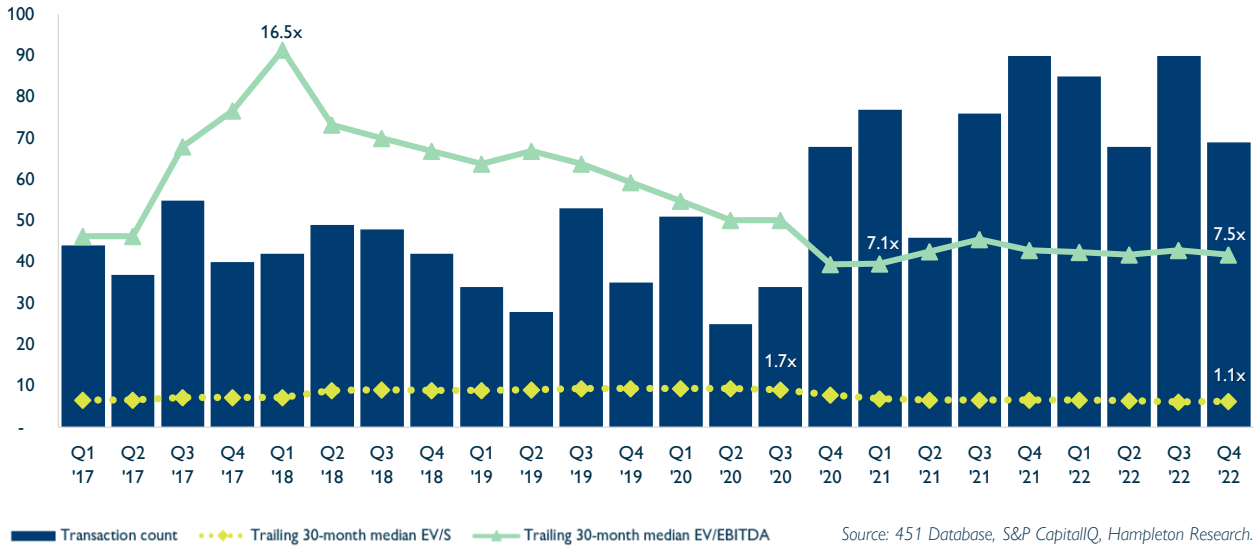


## Agencies & Services Providers

### Deal volume on the rise over the last year

Transactions in Agencies & Service providers increased by 8% year over year to an unprecedented level of 312 deals. The trailing 30-months EBITDA multiples saw a slight

decline from 7.7x to 7.5x, while revenue multiples remained level.



Source: 451 Database, S&P CapitalIQ, Hampton Research. All trailing 30-month median multiples are calculated as the median value of all disclosed multiples in the sector over the past 30 months. This calculation method helps smooth out the data which, if presented on a quarterly basis, would be skewed by extremely high or low values.

### Investments into AdTech dominating the landscape

The Dutch video game developer and advertising services provider Azerion acquired several targets in AdvertisingTech over the past two years. Aiming to grow their platform, presence in the market, and service offering, they invested heavily in the sector.

In one of the most recent acquisitions, they took over Hybrid Theory Global Ltd. The 2011 founded, UK-based digital agency was acquired by Azerion for \$9m at a revenue multiple of 0.5x. Hybrid Theory Global is a content-led data and technology company that has a significant presence in the US market as well as the Asia Pacific region, granting Azerion instant access to high-growth regions.



In October, Azerion acquired [M]media B.V. a Dutch digital advertising agency. The leading sales house, tech partner, and intermediary for publishers and advertisers in the Netherlands has a strong focus on the sports, lifestyle, and automotive sector.



The largest disclosed deal in the sector was the majority acquisition (64%) of the publicly listed, US-based Digital Media Solutions Inc. (DMS) by Prism Data LLC. Both the target and the acquirer are leading digital performance marketing companies in the US. DMS was acquired for \$298 million at a revenue multiple of 0.8x and an EBITDA multiple of 19.6x in a go-private transaction.

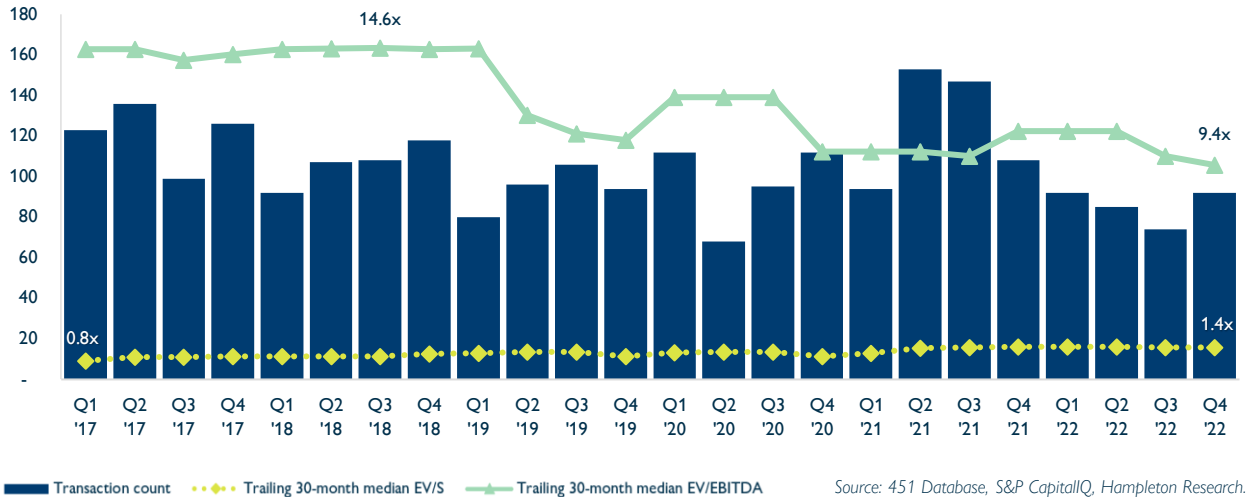


## Online Retail

### Online Retail transactions stabilising

After a peak in deal volume in the second and third quarter of 2021, transaction volumes have seen a quarterly decline. Year-over-year the number of deals has declined by -32% in 2022, with yearly transaction volume being at its lowest since 2015.

A similar decline is to be seen in median EBITDA multiples. In Q4'22 they were at their lowest of 9.4x since 2016. In the last quarter of 2022, a slight upswing in deals can be seen, however, it is too early to tell if this development will continue.



Source: 451 Database, S&P CapitalIQ, Hampton Research. All trailing 30-month median multiples are calculated as the median value of all disclosed multiples in the sector over the past 30 months. This calculation method helps smooth out the data which, if presented on a quarterly basis, would be skewed by extremely high or low values.

### Investment into fashion home furnishing continues

Strategic and financial investors are continuing to invest into online fashion and home furnishing retailers. Frasers Group plc, a publicly listed UK retailer and department store has acquired three companies over the last six months. In December, it acquired Amara Living Ltd (2005), a British online retailer of luxury home furnishing. In August, it acquired a majority stake (71.3%) of publicly listed MySale Group plc for \$ 19 million. MySale operates as an online retailer with online flash sales and retail websites in Australia, New Zealand, and South-East Asia. Finally, in June it acquired certain IP from Miss Guided for \$ 20 million.

Nordic Capital, a Danish private equity firm, acquired Ellos Group Holding (2011) in July this year. The target is an online retailer of fashion and home furnishings with around \$345 million in revenue (2021).



It offers products under the brand names Ellos, Jotex, Stayhard, and Homeroom.

<p>FRASERS GROUP</p> <p>Dec 2022</p> <p><b>ACQUIRED</b></p> <p>Not disclosed</p> <p>AMARA</p> <p>LIFE • STYLE • LIVING</p>	<p>FRASERS GROUP</p> <p>Aug 2022</p> <p><b>ACQUIRED</b></p> <p>\$ 19 million</p> <p>MYSALE GROUP PLC</p>	<p>FRASERS GROUP</p> <p>Jun 2022</p> <p><b>ACQUIRED</b></p> <p>\$ 20 million</p> <p>MISSGUIDED</p> <p>PLANET. LOVE AND FASHION</p>
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## Conclusion & Contacts

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The start of the pandemic in 2020 launched a wave of growth in Digital Commerce. The demand for technology to facilitate the “new normal” surged and the economy – including the M&A market – reacted accordingly. This caused record transaction volumes in Digital Commerce M&A throughout 2021.

This growth spiked in Q1 2022, before dealmaking slowed down significantly. War, supply chain issues and various crises worldwide caused high inflation, and a corresponding rise in interest rates and the cost of living. Rumours of a looming recession are public knowledge now.

The Digital Commerce M&A market slowed down from Q2 2022, but only compared to Q1 2022 and the post-Covid growth spurt. In reality, the market stabilised, returning to pre-pandemic levels. Acquirers are continuing to seek new digital technologies; however, they have become more selective and are back to being risk averse, with higher interest rates inhibiting leveraged investments. We still see a large market with strong multiples for mature and healthy companies in Digital Commerce. Equally, we believe that the market for companies with fewer proven successes is limited.

It is difficult to provide reliable outlooks for 2023. Based on our current knowledge, we believe that in the next two to three years the global, ‘unified’ Digital Commerce M&A market will become more segmented. We see the evolution of stronger regional differences in terms of deal value and multiples, and hence also in M&A demand and supply.

People and companies are confident in a clear road to profitability as we emerge from a difficult 2022. However, this trajectory will not be linear. The digital commerce market is still a melting pot of great innovative ideas; and where there are ideas, there are investors with substantial amounts of dry powder.



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Further contributions to this report were made by Lolita White, Senior Analyst, Hampton Partners.

Data Sources: We have based our findings on data provided by industry recognised sources. Data and information for this publication was collated from the 451 Research database, a division of The 451 Group; and S&P CapitalIQ. For more information on this or anything else related to our research, please email the address provided on our website.

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