

eCommerce Quarterly

The Importance of LTV/CAC

Welcome to La Honda Advisors' (LHA) inaugural eCommerce newsletter which we plan for quarterly release. The first section (Quarterly Commentary) is where we will analyze a facet of the eCommerce market that we've found interesting over the quarter. We hope you find this as enjoyable as we do.


As for the analysis of the report, while our focus is on the Private Markets in conducting M&A and Financing transactions for our clients, we also understand the importance of keeping a pulse on the Public Markets, which serve as a daily window into valuation. Therefore, we include both Private and Public Market analyses, as you see below. We also have split the Public eCommerce Market into "Brands" and "Marketplaces" which have different dynamics both quantitatively and qualitatively.



Quarterly Commentary: LTV/CAC

A key customer acquisition metric for eCommerce companies is LTV/CAC, or what is the lifetime value of a customer relative to the cost of acquiring that customer. This ratio is often presented in terms of cohorts based on the year the customer was acquired. Investors and buyers focus on this metric as a measure of marketing efficiency and return.

One issue about this ratio is that there is no standard definition of "LTV" or "CAC" which can lead to inconsistent comparisons. For example, the chart below displays three different approaches by three eCommerce companies:

| COMPANY | CALCULATION OF CAC | CALCULATION OF LTV | 2015 COHORT LTV/CAC ¹ |
|---|--|--|----------------------------------|
|  | <ul style="list-style-type: none"> + advertising and marketing cost associated with acquiring new customers + first time Autoship discounts ÷ customers acquired during period <hr/> Customer Acquisition Cost | <ul style="list-style-type: none"> + cumulative gross profit² - variable customer service costs - variable fulfillment costs - merchant processing fees ÷ customers acquired during period <hr/> Lifetime Value | 2.4x |
| REVOLVE | <ul style="list-style-type: none"> + brand and performance marketing costs (including employee costs) attributable to acquiring new customers ÷ customers acquired during period <hr/> Customer Acquisition Cost | <ul style="list-style-type: none"> + cumulative gross profit - fulfillment, selling, and distribution costs - marketing costs attributable to customer retention (including employee costs) ÷ customers acquired during period <hr/> Lifetime Value | 4.6x |
| TheRealReal | <ul style="list-style-type: none"> + total advertising spend (principally television, digital and direct mail) ÷ customers acquired during period <hr/> Customer Acquisition Cost | <ul style="list-style-type: none"> Cumulative gross profit ÷ customers acquired during period <hr/> Lifetime Value | 3.5x |

1 These companies tracked each cohort of customers over a three-year period, beginning in 2015, to calculate their LTV/CAC ratios.

2 Cumulative gross profit is attributable to customers of a cohort.



While there are numerous variables companies can include in the calculation of these two metrics, we maintain consistency is fundamental when analyzing this ratio. For example, Revolve Group includes employee costs (CAC and LTV) along with ad spend to acquire a customer (CAC) and ad spend to retain the customer (LTV) in their analysis. This effectively balances the LTV/CAC ratio by including analogous variables on both sides of the equation.



Adding unique variables to LTV or CAC is commonly a source of differentiation among companies. Chewy elects to include first time Autoship discounts (Chewy's subscription service) in their calculation of CAC, a variable neither of the other companies explicitly define in their CAC calculation. By adding unique variables to CAC or LTV, companies obtain better transparency but lose comparability among competitors.


The variables included in these metrics require extensive evaluation to ensure accuracy without overly suppressing or inflating either side of the equation. Unfortunately, there are currently no standard guidelines for these calculations which can lead to drastically different interpretations of both metrics. If you are implementing LTV/CAC as one standard for your company to be judged (whether internal or external), we recommend identifying operationally similar companies which disclose their specific calculations to serve as a baseline for your own.

Private Market



Notable M&A Transactions


| BUYER | SELLER | DATE ANNOUNCED | ENTERPRISE VALUE | EV/TTM REV | EV/EBITDA |
|--|---|----------------|------------------|------------|-----------|
|  |  | 08/12/2019 | N/A | - | - |
| <p>Synopsis: Founded in 2014, Greats is an online Men's and Women's luxury shoe brand. Although financial details of the transaction were not disclosed, Greats had \$13M in TTM Revenue as of June 2019.</p> | | | | | |

| BUYER | SELLER | DATE ANNOUNCED | ENTERPRISE VALUE | EV/TTM REV | EV/EBITDA |
|---|---|----------------|------------------|------------|-----------|
|  |  | 08/08/2019 | \$18 | - | - |
| <p>Synopsis: Personal Creations offers customized gifts, enabling customers to create personalized gifts in their own style. The company was sold by its owner, FTD, as a part of their court-supervised restructuring and included \$18M plus an earnout.</p> | | | | | |



| BUYER | SELLER | DATE ANNOUNCED | ENTERPRISE VALUE | EV/TTM REV | EV/EBITDA |
|--|--------|----------------|------------------|------------|-----------|
|  | LIVELY | 08/01/2019 | \$85 | - | - |
| <p>Synopsis: Lively was started by a Victoria's Secret alum who sought to bring size-inclusive women's underwear to the market. The company raised \$15M in venture funding from GGVCapital, NF Ventures, and more.</p> | | | | | |

| BUYER | SELLER | DATE ANNOUNCED | ENTERPRISE VALUE | EV/TTM REV | EV/EBITDA |
|---|---|----------------|------------------|------------|-----------|
| Etsy |  | 07/22/2019 | \$275 | 7.6x | - |
| <p>Synopsis: Reverb is a leading online marketplace for buying and selling new, used, and vintage musical instruments. Etsy paid all cash for the deal and this was their first acquisition since 2016 when they bought Blackbird.</p> | | | | | |

| BUYER | SELLER | DATE ANNOUNCED | ENTERPRISE VALUE | EV/TTM REV | EV/EBITDA |
|--|---|----------------|------------------|------------|-----------|
|  |  | 07/16/2019 | \$123 | 1.8x | - |
| <p>Synopsis: Pura Vida was started in 2010 and sells specialty bracelets. Vera Bradley bought a 75% share of the company for \$75M, with an additional earnout of \$22.5M. Pure Vida achieved \$68.3M of revenue in 2018.</p> | | | | | |

| BUYER | SELLER | DATE ANNOUNCED | ENTERPRISE VALUE | EV/TTM REV | EV/EBITDA |
|---|--------|----------------|------------------|------------|-----------|
|  | BABE | 07/01/2019 | N/A | - | - |
| <p>Synopsis: Babe was started by Instagram influencer, Josh Ostrovsky, in 2015 and popularized it's branded "White Girl Rosé" wine. Deal terms were not disclosed, but with the acquisition, Anheuser-Busch InBev will make a foray into the growing canned-wine market.</p> | | | | | |

Notable Financings

| PROMINENT INVESTORS | SELLER | DATE OF INVESTMENT | AMOUNT RAISED | PRE-MONEY VALUE |
|--|---|--------------------|---------------|-----------------|
|  |  | 09/25/2019 | N/A | N/A |
| <p>Synopsis: Solo Stove is a digitally-native camping and backyard gear company, known for it's portable fire pits and camp stoves.</p> | | | | |

| PROMINENT INVESTORS | SELLER | DATE OF INVESTMENT | AMOUNT RAISED | PRE-MONEY VALUE |
|---|---------------|--------------------|---------------|-----------------|
|  | BOLL & BRANCH | 08/26/2019 | \$100 | N/A |
| <p>Synopsis: Boll & Branch is an online seller of various home products such as bedding, mattresses, and bath goods. They will use the funds raised from this round to expand their retail and wholesale business.</p> | | | | |
| PROMINENT INVESTORS | COMPANY | DATE OF INVESTMENT | AMOUNT RAISED | PRE-MONEY VALUE |
|   | THREDUP | 08/22/2019 | \$145 | N/A |
| <p>Synopsis: ThredUP is an online thrift store and competes with companies such as Poshmark and The RealReal. After this round, this brings their total amount raised to \$306M.</p> | | | | |
| PROMINENT INVESTORS | COMPANY | DATE OF INVESTMENT | AMOUNT RAISED | PRE-MONEY VALUE |
|    | urbanstems | 08/15/2019 | \$12 | N/A |
| <p>Synopsis: Urban Stems operates a flower delivery company. The company plans on used the money to greatly expand nationally whereas before they were primarily delivering in NYC and Washington DC.</p> | | | | |
| PROMINENT INVESTORS | COMPANY | DATE OF INVESTMENT | AMOUNT RAISED | PRE-MONEY VALUE |
|  | vuori | 08/15/2019 | \$45 | \$165 |
| <p>Synopsis: Founded by Joe Kudla, Vuori began as an athletic wear company focused on selling shorts, sweatshirts, hoodies and t-shirts to men in a more muted palette than other options.</p> | | | | |
| PROMINENT INVESTORS | COMPANY | DATE OF INVESTMENT | AMOUNT RAISED | PRE-MONEY VALUE |
|  | wish | 08/01/2019 | \$300 | \$11,200 |
| <p>Synopsis: Since its founding in 2010, Wish has focused on bargain shoppers and built it's site around that. Prior to this round, they had raised a total of \$1.6B and grew 100% YoY in 2018.</p> | | | | |

Public Market^{1,2}

| USD\$ M | Ticker | Stock Price 09/30/2019 | Market Cap | Enterprise Value | Revenue | | Growth % | | EBITDA | | Revenue Multiples | | EBITDA Multiples | |
|---------------------|--------|---------------------------|------------|---------------------|---------|---------|----------|-------|---------|-------|-------------------|-------|------------------|-------|
| | | | | | CY18 | CY19E | CY18 | CY19E | CY18 | CY19E | CY18 | CY19E | CY18 | CY19E |
| Brands | | | | | | | | | | | | | | |
| 1-800-Flowers.com | FLWS | \$14.80 | \$955 | \$879 | \$1,209 | \$1,302 | 5% | 8% | \$79 | \$85 | 0.7x | 0.7x | 11.2x | 10.3x |
| Blue Apron | APRN | \$8.43 | \$110 | \$169 | \$668 | \$463 | -24% | -31% | (\$80) | (\$3) | 0.3x | 0.4x | NM | NM |
| Cimpress | CMPR | \$131.84 | \$3,980 | \$5,120 | \$2,682 | \$2,814 | 10% | 5% | \$299 | \$451 | 1.9x | 1.8x | 17.1x | 11.4x |
| Leaf Group | LEAF | \$4.20 | \$109 | \$109 | \$155 | \$160 | 20% | 3% | (\$13) | (\$5) | 0.7x | 0.7x | NM | NM |
| Peloton Interactive | PTON | \$25.10 | \$6,972 | \$6,810 | \$915 | | 110% | NM | (\$181) | | 7.4x | N/A | NM | N/A |
| Purple Innovation | PRPL | \$7.53 | \$406 | \$419 | \$286 | \$418 | 45% | 46% | (\$14) | \$24 | 1.5x | 1.0x | NM | 17.5x |
| SmileDirectClub | SDC | \$13.88 | \$5,342 | \$5,398 | \$423 | | 190% | NM | (\$52) | | 12.8x | N/A | NM | N/A |

| | | | | | | | | | | | | | | |
|----------------|--|--|---------|---------|---------|---------|------|------|--------|-------|------|------|-------|-------|
| Lower Quartile | | | \$110 | \$169 | \$286 | \$289 | 5% | -14% | (\$80) | (\$4) | 0.7x | 0.5x | | |
| Mean | | | \$2,554 | \$2,701 | \$905 | \$1,031 | 51% | 6% | \$5 | \$110 | 3.6x | 0.9x | 14.1x | 13.0x |
| Median | | | \$955 | \$879 | \$668 | \$463 | 20% | 5% | (\$14) | \$24 | 1.5x | 0.7x | 14.1x | 11.4x |
| Upper Quartile | | | \$5,342 | \$5,398 | \$1,209 | \$2,058 | 110% | 27% | \$79 | \$268 | 7.4x | 1.4x | | |

Marketplaces

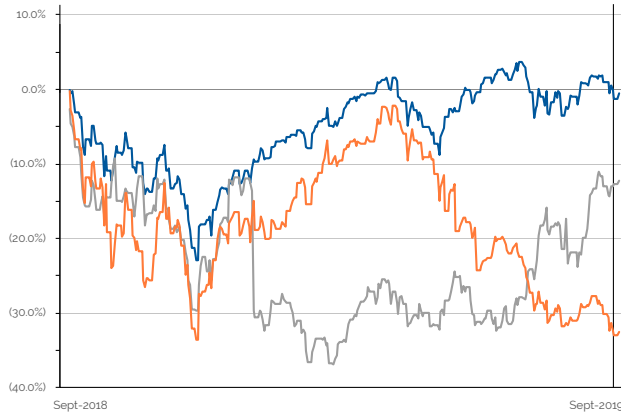
| | | | | | | | | | | | | | | |
|----------------|------|------------|-----------|-----------|-----------|-----------|-----|------|----------|----------|-------|------|--------|-------|
| Amazon | AMZN | \$1,735.91 | \$858,678 | \$894,525 | \$232,887 | \$279,027 | 31% | 20% | \$27,579 | \$41,610 | 3.8x | 3.2x | 32.4x | 21.5x |
| Chegg | CHGG | \$29.95 | \$3,584 | \$3,921 | \$321 | \$401 | 26% | 25% | \$21 | \$121 | 12.2x | 9.8x | 190.6x | 32.5x |
| Chewy | CHWY | \$24.58 | \$9,798 | \$9,850 | \$3,533 | | 68% | NM | (\$245) | | 2.8x | N/A | NM | N/A |
| eBay | EBAY | \$38.98 | \$32,695 | \$41,012 | \$10,746 | \$10,823 | 8% | 1% | \$3,564 | \$3,685 | 3.8x | 3.8x | 11.5x | 11.1x |
| Etsy | ETSY | \$56.50 | \$6,688 | \$6,705 | \$604 | \$803 | 37% | 33% | \$95 | \$188 | 11.1x | 8.4x | 70.5x | 35.6x |
| Farfetch | FTCH | \$8.64 | \$2,631 | \$2,067 | \$602 | \$973 | 56% | 62% | (\$141) | (\$140) | 3.4x | 2.1x | NM | NM |
| Groupon | GRPN | \$2.66 | \$1,510 | \$1,286 | \$2,637 | \$2,387 | -7% | -9% | \$132 | \$269 | 0.5x | 0.5x | 9.7x | 4.8x |
| Overstock.com | OSTK | \$10.59 | \$374 | \$305 | \$1,822 | \$1,566 | 4% | -14% | (\$189) | (\$57) | 0.2x | 0.2x | NM | NM |
| PetMed Express | PETS | \$18.02 | \$364 | \$280 | \$286 | \$274 | 5% | -4% | \$56 | | 1.0x | 1.0x | 5.0x | N/A |
| REVOLVE | RVLV | \$23.37 | \$1,610 | \$1,565 | \$499 | | 25% | NM | \$44 | | 3.1x | N/A | 35.5x | N/A |
| Stitch Fix | SFIX | \$19.25 | \$1,942 | \$1,798 | \$1,372 | \$1,739 | 25% | 27% | \$57 | \$35 | 1.3x | 1.0x | 31.6x | 51.9x |
| The RealReal | REAL | \$22.36 | \$1,908 | \$1,861 | \$207 | | 55% | NM | (\$66) | | 9.0x | N/A | NM | N/A |
| Wayfair | W | \$112.12 | \$10,353 | \$11,125 | \$6,779 | \$9,240 | 44% | 36% | (\$350) | (\$395) | 1.6x | 1.2x | NM | NM |

| | | | | | | | | | | | | | | |
|----------------|--|--|----------|----------|----------|----------|-----|-----|---------|---------|------|------|-------|-------|
| Lower Quartile | | | \$1,560 | \$1,425 | \$410 | \$702 | 7% | -6% | (\$165) | (\$98) | 1.1x | 0.9x | 10.2x | 9.5x |
| Mean | | | \$71,702 | \$75,100 | \$20,176 | \$30,723 | 29% | 18% | \$2,351 | \$5,035 | 4.1x | 3.1x | 48.4x | 26.2x |
| Median | | | \$2,631 | \$2,067 | \$1,372 | \$1,653 | 26% | 22% | \$44 | \$121 | 3.1x | 1.7x | 32.0x | 27.0x |
| Upper Quartile | | | \$10,075 | \$10,487 | \$5,156 | \$9,636 | 49% | 34% | \$114 | \$1,977 | 6.4x | 4.9x | 61.8x | 39.7x |

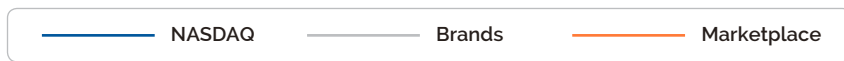
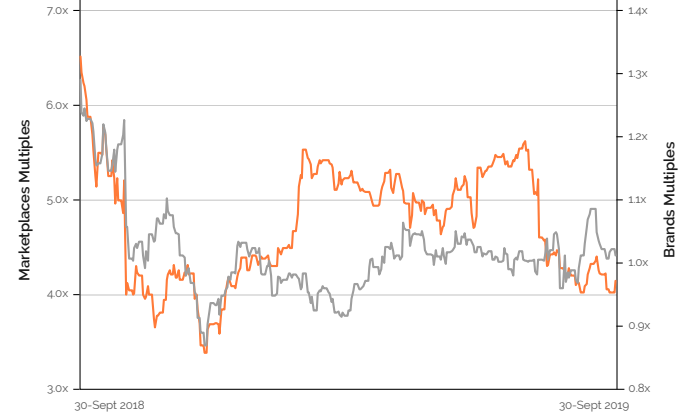
1 Data sourced by Pitchbook.

2 Both graphs include all companies in their respective categories, apart from Peloton Interactive and SmileDirectClub.

% Change in Average Stock Prices



Average Revenue Multiples



About La Honda Advisors

La Honda Advisors is an investment banking boutique focused on achieving exceptional M&A and financing outcomes for our clients. Our clients are the innovators and technology leaders who build great companies and seek more creative, nimble approaches. While based in Silicon Valley, our reach is global.

For more information on La Honda Advisors, please visit our website at www.lahondaadvisors.com or contact our Partners.

Neither La Honda Advisors nor any associated persons are currently receiving any compensation, providing any services, or have any debt or equity investments in any firm that is the subject of this white paper.

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