

## Customer & Market Due Diligence Of Entrepreneurial Digital Performance Marketing Company: Establishing Competitive Positioning And Recession Risk

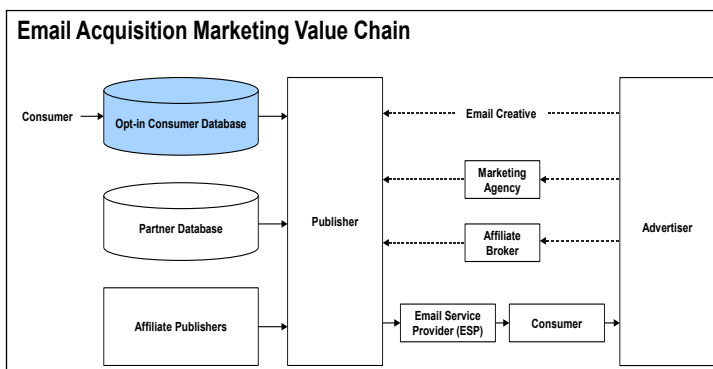
**The Challenge:** One of our PE clients was in exclusive negotiations to acquire an entrepreneurial digital performance marketing company focused on email acquisition and affiliate marketing. The target had built a large database of opt-in consumers leveraging its owned & operated (O&O) sites and offered advertisers CPA-based lead and web traffic generation services. Given the target's rapid growth and its first-party consumer database, our client was attracted by the opportunity to build a leading email acquisition marketing service provider that would benefit from the deprecation of third-party cookies. However, our client sought greater confidence in the target's competitive positioning and a reliable estimate of the client's potential recession risk and asked Gotham to conduct a 4-week customer & market due diligence to establish: (1) recession outlook by end-market; (2) margin sustainability by business line; and (3) the target's competitive positioning.

**Fact-based Competitive Positioning And Recession Impact Assessment:** Gotham undertook a multi-pronged approach to establish market dynamics, competitive landscape, and recession outlook, including:

- Conducting ~200 warm introduction and anonymous customer interviews and surveys of advertisers, competitors, and other industry participants across various end-markets to gain insights into customers' marketing programs and use of email acquisition and affiliate marketing, their buying behavior and performance marketing provider selection criteria, the target's reputation vis-à-vis key competitors, and potential impact of deprecation of 3rd-party cookies and recession on their digital marketing programs
- Building a comprehensive competitive database (over 100 companies and over 400 O&O sites) to establish competitive segmentation and the target's relative positioning in the marketplace
- Establishing a robust picture of the target's margin profile and drivers of management's growth projections by dissecting available financial and operating data for multiple business lines and researching over 1,000 direct and indirect advertisers and publishers to establish the target's customer mix by type and end-market
- Developing a recession model to estimate revenue impact of the anticipated changes in marketing spend during a recession by end-market and how a recession might impact the target's costs by business line
- Conducting research to understand market dynamics and trends in the overall digital marketing, and more specifically email acquisition and affiliate marketing.

### Emerging Email Acquisition Marketing Is Expected To Grow Rapidly With The Elimination Of 3rd-party Cookies

Companies targeting consumers are increasingly relying on email marketing as deprecation of 3rd-party cookies is affecting their ability to target. Initially, email marketing was focused on advertisers' own CRM databases but now with marketing services companies gaining opt-in permission in compliance of the SPAM Act, email acquisition marketing allows advertisers to leverage first-party data to establish direct consumer relationships. The target has built a large opt-in consumer email database and established itself as a leading Tier 2 player. Gotham's customer interviews indicated that the target is constrained by the size of its consumer database and there is a significant opportunity for the target to increase this size both organically and through acquisitions in this early-stage, fragmented market.



### CPA Affiliate Marketing Is Playing A Bigger Role In Lead Generation As Search And Social Advertising Become Very Expensive

Historically, affiliate marketing was primarily focused on eCommerce and viewed poorly by advertisers. As such, it played only a small role in advertisers' marketing programs. With the rapid growth of digital marketing during COVID, the cost of advertising through search and social media platforms increased significantly, forcing advertisers to consider alternative digital marketing channels. Affiliate marketing is benefitting from this trend as this channel provides lead generation cost certainty due to its cost per action (CPA) model and the affiliate marketing industry is itself maturing with more sophistication and better business practices. Gotham estimated that the \$8B affiliate marketing industry is expected to grow at ~10% CAGR moving forward.

### Target Expected To Perform Well During A Recession Due To Its Favorable End-market Mix And Clients Rebalancing Their Spend To Increase Performance Marketing

Gotham's recession outlook assessment indicated a mixed demand picture during a recession as some end-markets the target serves will see an increase in demand, some a decline, and some no impact, with a slightly negative bias indicated on overall marketing spend. However, 50% of advertisers indicated that they were planning to increase their spend on performance marketing due to higher ROI certainty, a favorable situation for the target. Furthermore, the target is well positioned to gain market share from undercapitalized smaller players in this highly fragmented market as it is highly regarded by its customers and scores well on customers' key selection criteria of quality, volume of traffic/leads, and compliance. The target would also see a decrease in costs during a recession as there would be less competition for ad inventory and web traffic.

**The Outcome:** Gotham's robust assessment of this emerging and not well defined market provided our client with clarity on market and competitive dynamics. This fact-based understanding of the target's competitive positioning, growth opportunity, and recession risk allowed the client deal team to present a robust picture of the opportunity to their investment committee and lenders.