

The background is a composite image. The left half is a blue-tinted photograph of a man with a beard and a woman looking at something together. The right half is a black and white photograph of a woman in a kitchen wearing an apron that says "Be my Guest", holding a bunch of mushrooms, with other people and kitchen items visible in the background.

# BAIRD'S VIRTUAL PCC CONFERENCE TAKEAWAYS

27 – 28 October 2020

# VIRTUAL PRIVATE COMPANY CONSUMER (PCC) CONFERENCE

*Showcasing best-in-class companies performing well in the face of Covid*

## BAIRD'S VIRTUAL PCC CONFERENCE



**Powering through Covid**  
27 – 28 October 2020

- 42 participating companies
- 458 1x1 meetings held virtually
- 663 attendees from private companies, private equity firms and institutional investors



## UNIQUE OPPORTUNITY FOR COMPANIES



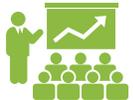
**Engage With Priority Investors**

*Unique setting to efficiently meet top potential partners*



**Sets Competitive Atmosphere**

*Conference participation signals a premium asset*



**Proactive Positioning**

*Introduce or reintroduce the story to "level set" the market*



**Enables Early Diligence and Speed**

*Investors can "get smart" early to move quickly later*



**Elicits Market Feedback**

*Utilise feedback to tailor story and address concerns*



**Early Evaluation of Potential Partners / IPO**

*Rapport with sponsors and, if relevant, institutional investors*

# PRESENTING COMPANIES – “POWERING THROUGH COVID”

*Despite the downturn, these companies are either Covid beneficiaries or Covid resilient*

## Apparel, footwear & enthusiast brands

5.11, alo (BELLA+CANVAS LOS ANGELES), APL (ATHLETIC PROFESSIONALS), ASSOS (OF SWITZERLAND), knix, MACK WELDON (FOR DAILY WEAR), stockX, RHONE, TECOVAS (FINE BOOTMAKERS)

## Household, consumer & beauty products

BEAUTY BY IMAGINATION, CLASSIC ACCESSORIES, elyptol, EVERGREEN Garden Care, IGLOO made-in, MADISON REED, NEST NEW YORK, Premier NEEDLE ARTS, TRAEGER WOOD PELLET GRILLS

## Juvenile products

aden + anais, asmodee, Play Monster, STOKKE

## Food & beverage

Chloe's Fruit, Gai Foods, NEWVITALITY (BE HEALTHY LIVE BETTER), nulo (healthier together)

## Fitness & wellness

alo moves, BEACHBODY, hydrow

## Retail & franchising

Batteries Plus, EVEREVE, Radiance Holdings, REBAG, SLIM CHICKENS, WSS

## Recreation

Barletta BOATS, Getaway

## Vehicle aftermarket

AMP (DEFINE YOUR DRIVE), BESTOP, GB Auto Service, Inc., RANDYS

## ***Probing for validation of competitive differentiation is critical in Covid world***

### DISCUSSION AREAS IN 1X1 MEETINGS



Evolution of business and competitive differentiation



Impact of Covid in lockdown and longer term trends



Core addressable market and whitespace for growth



Location(s) of supply chain and impact of tariffs



e-commerce revenue growth (DTC, Amazon, e-tailers)



Largest competitors by category and channel



Cash flow generation and investment requirements



Buy-and-build opportunity – M&A pipeline / integration

### PRESENTING COMPANY SNIPPETS

*“We partnered with a tech company to control **in-home fragrance with an app**. It has attracted new young male customers and **increased our recurring revenue**.”*

*“Our **professional haircare channel** closed in lockdown, but we found more ways to communicate and reach consumers with **virtual consultations and events**.”*

*“There is a gap in the category for high quality **affordable western boots**. We are the **first DTC western brand**, removing the **wholesale / retailer markup**.”*

*“#1 baby brand for premium soft goods. **90% of our supply is from China** and we raised prices on products hit by tariffs. We are **developing supply from India**.”*

*“Spending on men’s health supplements grows 5%+ annually, and our revenue via **Amazon is growing quickly, more than doubling in 2020**.”*

*“**Grateful for the work Peloton has done** to inform consumers about connected fitness – we are a **fast follower** with our indoor rower and way more efficient.”*

*“Cash positive in 2020 despite 3 months of store closures. Our **stores are now mini-fulfillment centres** and our staff are stylists for our e-commerce boxes.”*

*“We **acquired and integrated 34 companies** in the last 7 years with a **low risk M&A strategy** centred on iconic board games, **publishing and local distribution**.”*

# SUMMARY OF KEY TAKEAWAYS

**p.5 & 6** *Permanent shift towards higher level of e-commerce benefits those with well-invested omnichannel infrastructure*

**p.7** *Mid-market companies / disruptors continue to take share from large CPG players, driving M&A*

**p.8** *Lifestyle brands inspire, guide and motivate consumers, contributing to their way of life*

**p.9** *Consumer habits and “at home” lifestyles in lockdown are here to stay post-Covid*

**p.10** *Companies with strong customer engagement are able to lower customer acquisition cost and grow a loyal customer base*

**p.11** *A recession resilient customer base, supported by customer demographics, is highly attractive*

**p.12** *Executing an ambitious growth plan requires a leadership team with depth and breadth of experience and expertise*

**p.13** *Companies are driving their own destiny rather than relying on end market growth or themes accelerated by Covid*

**p.14 & 15** *What does good look like and what are the key metrics that drive value for mid-market consumer businesses?*



## KEY TAKEAWAYS

# COVID IMPACT BY CHANNEL

**Permanent shift towards higher level of e-commerce benefits digitally native brands as well as differentiated retail concepts with well-invested omnichannel infrastructure**



**Brick & mortar retail**  
(DTC & third party)

Non-essential stores closed for 3 months from March

Reopen with lower footfall, but higher intent to buy, increasing conversion

**Bifurcation – opportunity to open new stores with attractive cost and location**



Rollout of **BOPIS (buy online pick-up in-store)** and “dressing room at home”

Customer interaction for potential additional purchases in-store

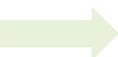


**e-commerce**  
(DTC & third party)

e-commerce share of revenue up by **10 – 30** percentage points yoy <sup>(1)</sup>

No slowdown of e-commerce demand post lockdown

**Bifurcation – benefitting the companies that invested in digital infrastructure pre-Covid**



(1) Representative range across selected presenting companies, typically comparing YTD 2020 e-commerce share of revenue to 2019.

# OMNICHANNEL WITHIN E-COMMERCE

*Covid has driven years worth of e-commerce penetration in a few weeks, but e-commerce is becoming more complex to navigate as more channels are created within its ecosystems*

## DTC (direct to consumer)

Underlying technology:



**Customer journey** on own website (or app) should be **mobile friendly**, engaging and easy to use

Often the **highest margin channel**

**Drop shipping** – allows smaller players to focus on customer acquisition vs. fulfilment / logistics

## Online marketplaces



**Strong sales potential** given large and growing customer base

Currently **not enough shipment capacity** in the US for Q4 2020 <sup>(1)</sup>

Amazon plans to increase its US fulfilment capacity by 50% <sup>(1)</sup>

Covid shown product can be **side-lined by Amazon** if not essential

## Third party e-retailers



Mass and specialty retailers set up **e-commerce infrastructure**

Higher margin often via specialty relative to mass retailers

## Social media platforms



Now offering **checkout in the app**, bring together content, digital marketing and the transaction

Platforms are becoming more advanced e.g. one click shopping

(1) Source: Colliers International, Amazon.

# COMPETITIVE LANDSCAPE

## *Mid-market companies / disruptors continue to take share from CPG players, driving M&A*



### Mid-market companies / disruptors

**Penetration** / market share driven **growth**

**Social media** / **community** brand following

**Authenticity** – reflects **lifestyle** and **real-life stories**

Increasingly **DTC** / **e-commerce** channels

Direct interaction and **primary data on consumers**

**Emotionally driven** repeat and new **customers**

**Borne from innovation** for consumer **wellbeing** / solution

**Simple, high quality natural** / **organic** ingredients

Consumer willingness to **pay for differentiation**

Primed for **PE** or **strategic investment** to further **accelerate growth and profitability**



### Large CPG (consumer packaged goods)

Reliant on **end market** driven **growth**

**Advertising** / **historic** brand strength

Focus on **corporate social responsibility** (CSR)

Primarily **wholesale** / **retail** channels

**Secondary data on consumers** via third parties

**Habit driven** repeat **customers**

**Incremental** product based **innovation**

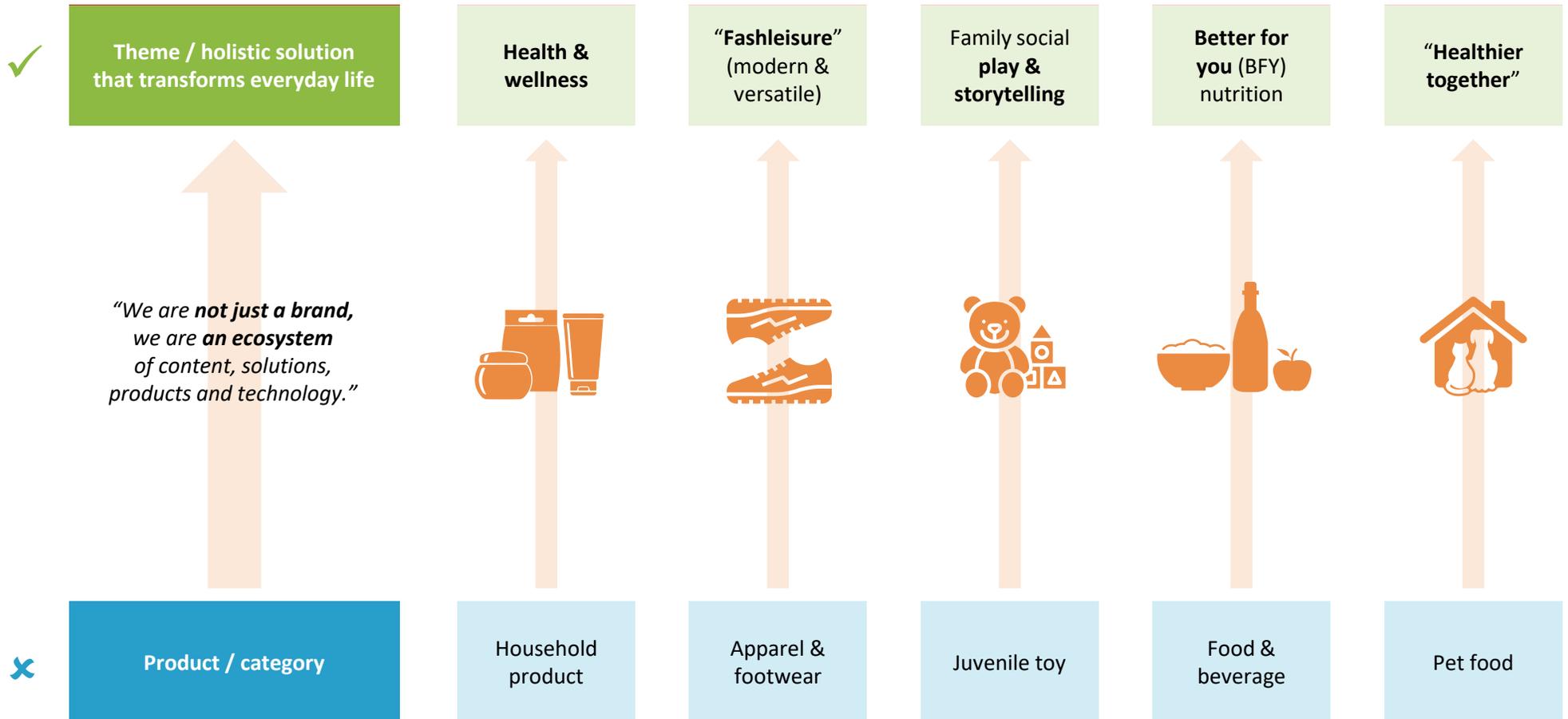
**Complex** / **formulated** additives

Risk averse consumers **stick to trusted brands**

Increasingly **difficult to compete** against disruptors and private label – **appetite to acquire growth**

# WHAT DOES A LIFESTYLE BRAND MEAN?

*Lifestyle brands inspire, guide and motivate consumers, contributing to their way of life*



# LIFESTYLES IN THE NEW NORMAL

*Consumer habits and “at home” lifestyles in lockdown are here to stay post-Covid*



**Browsing,  
researching and  
purchasing online**



**Hygiene,  
disinfecting  
and sanitising**



**Health & wellness  
– nutrition and  
exercise at home**



**Engaging with  
brands via  
online content**



**“Cocooning” / décor  
– making home and  
garden comfortable**



**Cooking and  
eating at home**



**Self organised  
outdoor activities**



**Casual consumers  
join enthusiast  
activities**



**Family socialising  
and play at home**

# STRATEGIES FOR CUSTOMER ENGAGEMENT

***Companies are lowering their customer acquisition cost and growing a loyal customer base, building a competitive moat around their business, even in markets with low barriers to entry***

## Company culture / motto



“Culture of heart”  
“Equipment not fashion”  
“We sell happiness to children”

## Social media following



Experience new products  
Storytelling for community  
Organic influencer network

## Loyal brand ambassadors



Customers – best brand advocates  
e.g. celebrities or Olympic teams  
Corporate partnerships e.g. AMG

## Licensing franchises



Multiyear contracts  
Marvel, Disney, Star Wars  
Content for media companies

## Free online content



New customer acquisition  
Gain free media impressions  
Quality consumer lifestyle advice

## Drop culture



Limited release that sells out  
Creates product excitement  
Helps drive customer LTV

# ATTRACTIVE CUSTOMER DEMOGRAPHICS

***Covid has driven a shift in consumer demand to essentials and “affordable premium” – a recession resilient customer base is highly attractive – examples of segments include:***



**Affordable premium “fashleisure” retail**

**Affordable premium baby products**

**Premium enthusiast cycling apparel**

**Prestige home fragrances**

**Home & garden products**

**Gender**

Female

Primarily female

Male 80% / female 20%

Female 80% / male 20%

Female 60% / male 40%

**Age**

35 – 54

Millennial mom

25 – 70

25 – 64

Primarily 40 – 70, adding millennials

**Household income**

\$150k+

All

Medium to high

\$100 – 500k

Above average

**Education**

80% graduate degree

All

Highly educated

Highly educated

All

**Regularity**

2x monthly, \$2 – 6k p.a.

Each baby and gifts

Year round, all-weather

Year round and holidays

Year round (home décor) / spring to autumn (garden)

# IMPORTANCE OF A HIGH QUALITY MANAGEMENT TEAM

***Execution of an ambitious growth plan in today's rapidly changing environment requires a leadership team with depth and breadth of experience and expertise... examples include:***

One or two founders...



... entrepreneurial "everyone does everything" approach...



... to professional, specialised approach with new thinking



 Chief Executive Officer	 Chief Financial Officer	 Chief Operating Officer
 Chief Technology Officer	 Chief Retail Officer	 Chief Marketing Officer
 Chief Commercial Officer	 Chief Merchandising Officer	 Director of E-commerce and Digital
 Fashion Director	 Director of Franchise Development	 Vice President of Talent

# PILLARS OF GROWTH

***Companies are proactively driving their own destiny rather than relying on end market growth or secular growth themes that have been accelerated by Covid***



## Digital acceleration

e-commerce e.g. DTC, Amazon, “retailer.com”

Social media e.g. storytelling, content

CRM and digital marketing e.g. email, profile, habits

Integrated ERP, website for search and mobile

## Innovation

Product improvements

Core product extensions

New categories

Environmental sustainability

## New distribution

New retail partners, channels or footprint

New store openings / franchise development

International e.g. Americas, Europe, Asia

Dedicated product lines for different channels

## Adapt to Covid

Pivot employees and resources for mix shift

Drop shipping capabilities

Retail stores acting as mini-fulfilment centres

Secondary supplier sourcing e.g. China, India

## Optimising operations

Upgraded / new management team

SKU reduction to focus on those most profitable

Customer data analytics engine

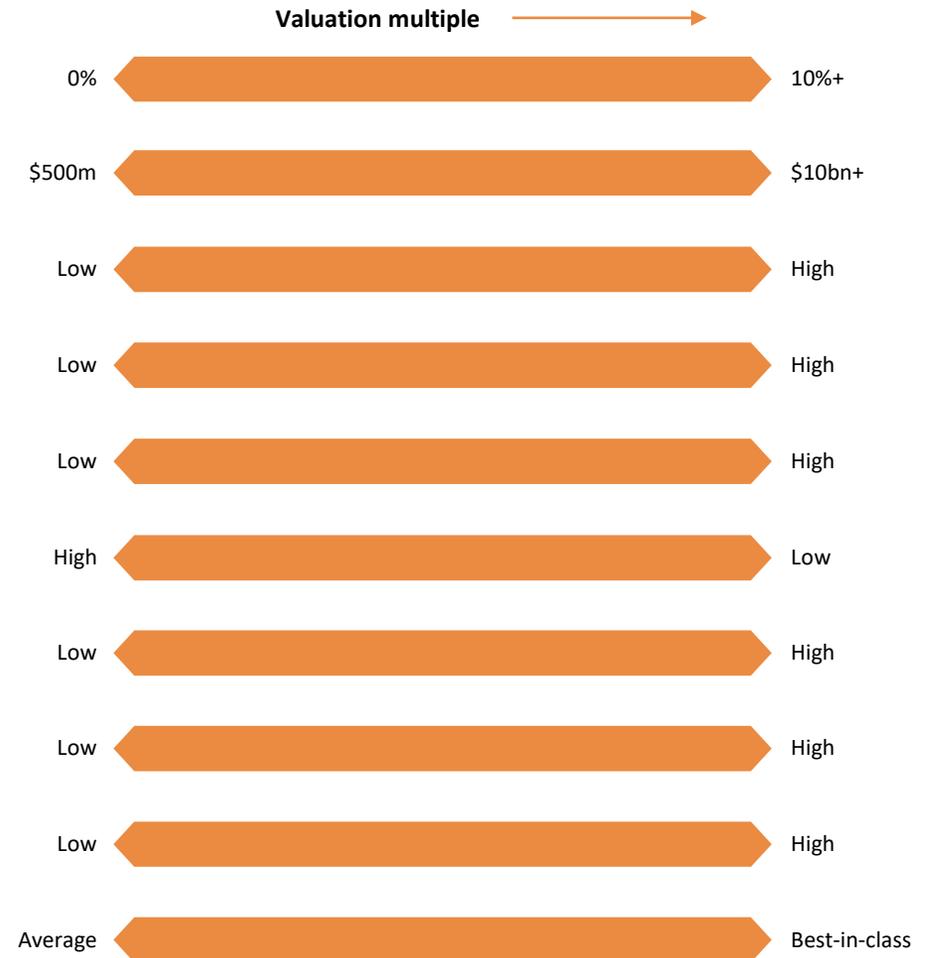
Low cost domestic manufacturing at scale

*M&A is an additional lever of growth, often transformative if contributing to multiple pillars above*

# WHAT DOES GOOD LOOK LIKE?

## Attractive business model characteristics for mid-market consumer businesses

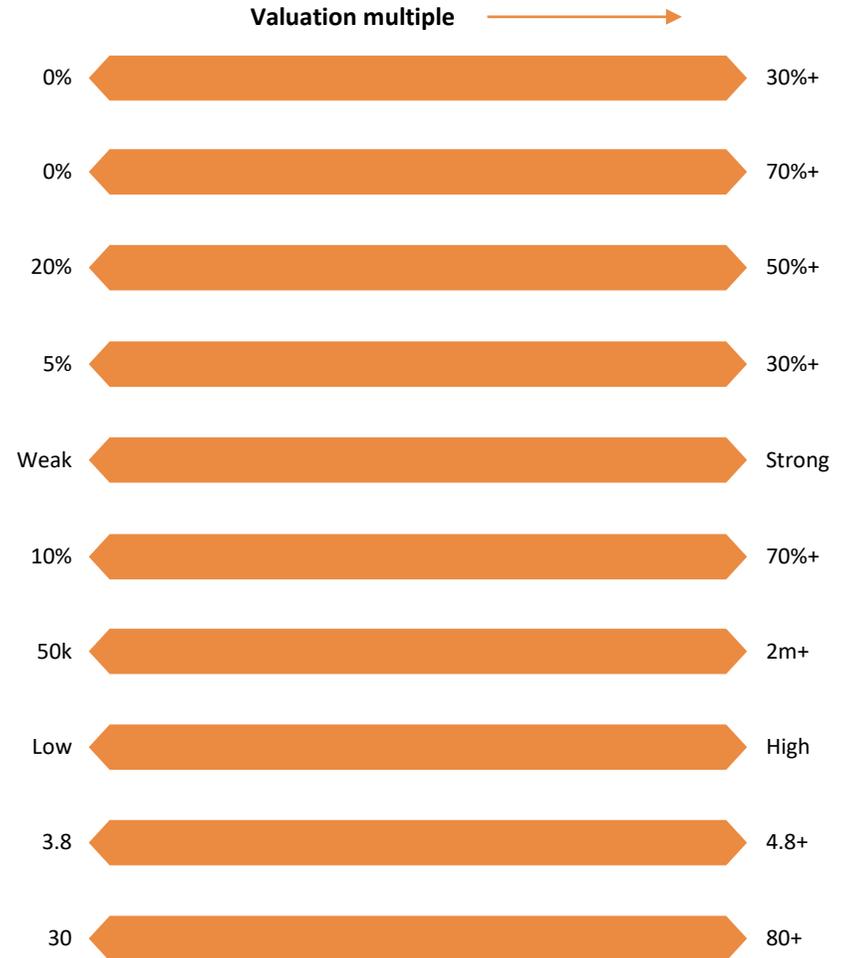
<b>Growing addressable market</b>	Supported by secular growth themes, not cyclical / seasonal
<b>Large addressable market</b>	Low penetration and growing market share for the company
<b>Innovation</b>	Differentiated product, leading or disrupting the category
<b>Lifestyle / better for you</b>	Part of customer identity, seen as non-discretionary spend
<b>Brand authenticity</b>	Shares customer values / passion, allowing premium pricing
<b>B2B customer concentration</b>	Level of reliance on key customers, partners or channels
<b>Online community following</b>	Often the key differentiator reducing risk of displacement
<b>Digitisation / tech enablement</b>	Supporting website, e-commerce, social media, customer data
<b>Omni-channel / e-commerce</b>	Control over pricing and channels e.g. DTC, retail, Amazon
<b>Strong metrics-driven team</b>	Data-led organisation driving management decisions



# WHAT ARE THE KEY METRICS THAT DRIVE VALUE?

## *Selected financial and operational metrics for mid-market consumer businesses*

<b>Organic revenue growth</b>	Strong non-cyclical nature of top line growth
<b>Recurring / reoccurring revenue</b>	% of subscription revenue or regular repeat customers
<b>Gross margin</b>	Sourcing / manufacturing efficiency, pricing power, competition
<b>EBITDA margin</b>	Sustainable profitability through economic cycles
<b>Unit economics</b>	Customer lifetime value, acquisition cost and repeat purchase behaviour show attractive marketing and customer dynamics
<b>High growth digital revenue</b>	% of revenue that is e-commerce or derived digitally
<b>Social media following</b>	Number of followers on platforms e.g. Facebook, Instagram
<b>Relative retail sales velocity</b>	How quickly product sells relative to similar categories
<b>Amazon product rating</b>	Genuine high quality reviews recommending the product
<b>Net promoter score</b>	Proxy for customer loyalty – promoters, passives, detractors



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