CLIPPERTON

DIGITAL NATIVE VERTICAL BRANDS

BUZZ WORD OR NEW CLASS OF ASSETS?

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Full report available
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ABOUT US

Clipperton is a European independent corporate finance advisory firm exclusively dedicated to the Technology space, advising high growth companies on M&A transactions, debt financings and equity offerings. With offices in London, Berlin, Munich and Paris and an international reach, Clipperton is a European leader in Technology financial advisory. Over the past 17 years, the team has successfully completed more than 300 high profile transactions globally.

SELECTED TRACK-RECORD

Fintech & Insurtech	New Hardware & Telecom
Digital Media & Services	Healthcare & Medtech
Consumer Internet	**Enabling Tools / Software**

Consumer Internet		Enabling Tools / Software	
musement Sold to TUI	QUiTOQUE (Souriez, tout est dans le panier.) Sold to Carrefour	GASTROFIX Sold to lightspeed	adot Sold to Veepee
FOODCHÉRI Sold to sodexo	Aramisauto Sold to PSA GROUPE	linkfluence Private Placement RING CAPITAL, TIKEHAU CAPITAL	iAdvize Private Placement idinvest PARTNERS, QUADRILLE, iris capital, bpifrance
Glovo Private Placement CATHAY INNOVATION, Rakuten	Vestiaire Collective Private Placement Balderton., eurazeo, idinvest PARTNERS, CONDÉ NAST	sendinblue Private Placement partech	admo.tv Private Placement Runa Capital, CAPDECISIF MANAGEMENT, ENTREPRENEUR VENTURE

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DNVBs: A WIDE-SPREADING PHENOMENON IN THE DIRECT-TO-CONSUMER WORLD POWERED BY ONLINE CHANNELS AND NEW CONSUMPTION BEHAVIOURS.

- **The term Digital Native Vertical Brands**, formalized and developed by Andrew Dunn, founder of Bonobos – one of the largest successes in men's fashion acquired by Walmart in 2017 – has been gaining popularity over the past few years. This trend saw the rise of a new generation of Consumer Internet businesses, massive funding and to a lesser extent, a first wave of consolidation led by incumbents (e.g. Walmart, Unilever, Procter & Gamble).

THE BONOBOS CASE

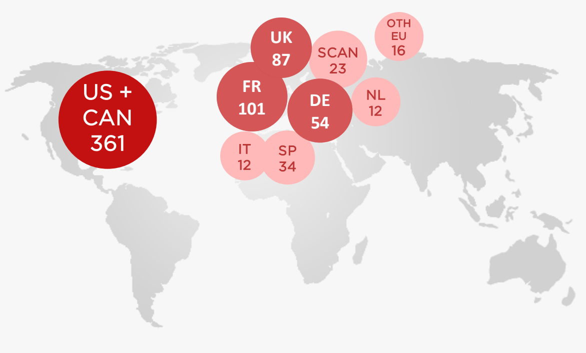
BONOBOS Acquired by Walmart

June 2017 - $310m – 2.7x Rev

- Launched online in 2007 with a signature line of better-fitting men's pants.
- Raised a total of $127m with leading VCs including Accel, Lightspeed and Forerunner Ventures.
- Reached ~$115m revenue in 2016. Generated most of its sales online but also had a handful of physical "guideshops".
- Rationale for Walmart: own a brand that resonates with millennials.

DNVBs ACROSS GEOGRAPHIES

Number of companies as of 2019



Sources: Capital IQ; Crunchbase; Clipperton analysis

- The surge in DNVBs is visible across **various consumer categories**: it initially started with segments showing high Internet penetration (e.g. bedding, furniture) quickly followed by other categories offering high purchase frequency, often encouraged by specific business models (e.g. subscription, try-at-home). Obsessively focused on their unit economics, the most successful DNVBs quickly managed to carve-out meaningful market shares in their respective verticals and local markets.

OK BOOMER: TALKING TO THE MILLENIALS

- A key driver behind the rapid emergence of DNVBs from 2010 onwards was their **ability to meet the soaring demand – and aspirations – of a new category of consumers**: the Millennials. As this generation (born in the 80s and 90s) grew in proportion with the overall population and gained purchasing power, they changed the paradigm for brands, urging for more conscious, ethical and meaningful consumption. At the same time, the shift in communication from the traditional media battlefield to social networks and platforms created a fresh ground for new brands willing to build and develop a relationship with consumers.

SELLING GOODS TOOLKIT 2.0

- In parallel, DNVBs were able to capitalize on a new set of cloud-based tools and processes that eased the creation, launch and management of a retail brand. This includes online channels that allowed DNVBs to rapidly build a **disintermediated relationship with consumers** - both in terms of marketing (acquisition) and sales (direct) – as well as an obsessive and **transversal focus on data** which allowed them to manage growth in a healthy manner. This specific operating model entails a transformation of the traditional ecommerce value chain, with a greater control of the brand, from design & manufacturing down to the consumer relationship.

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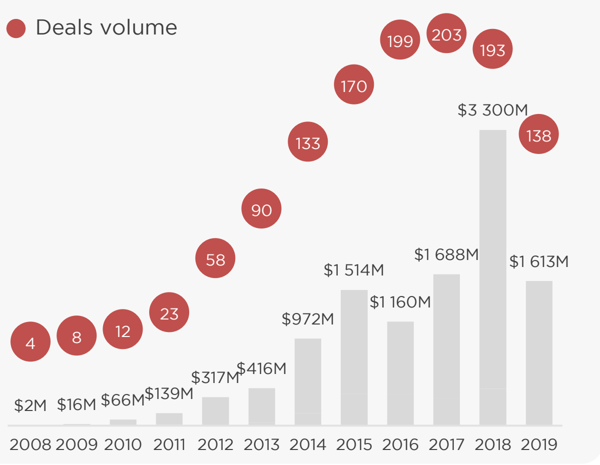
DNVBs RAPIDLY MADE INROADS INTO THEIR RESPECTIVE MARKETS, ATTRACTING SIGNIFICANT FUNDING MONEY.

- DNVBs managed to grow fast and became credible alternatives to traditional incumbents thanks to:
  - the **disintermediation of the value chain** that allowed DNVBs to capture a higher portion of the value, resulting in higher gross margins, up to twice those of comparable "pure" ecommerce players;
  - a **strictly data-driven management of operations** often coupled with business models fostering repeat and retention (e.g. subscription), enabling them to unlock healthy unit economics (low CAC(1) and/or high LTV(2)/CAC ratios). This was notably facilitated by the emergence of a new generation of digitally-native entrepreneurs equipped with the relevant set of skills and techniques.
- As a result, DNVBs received **significant interest from investors** - some of which even specializing in such brands – peaking in 2018 with $3.3Bn flowing into the segment. Our data on European funding shows a clear momentum for DNVBs in recent years, as the category accounted for more than 25% of the total number of deals in Consumer Internet in 2018 against 11% in 2014.

FINANCING TREND OF DNVBs



Sources: Capital IQ; Crunchbase; Clipperton analysis
(1) Customer acquisition costs
(2) Customer Lifetime Value

HOWEVER, DNVBs NEED TO SOLVE MAJOR CHALLENGES TO REACH A CRITICAL SIZE.

- After rapidly establishing their brand on a domestic market thanks to a trustful community of product-lovers, going beyond their "core" circle of users is often not straightforward for DNVBs. Key challenges faced by DNVBs willing to expand and reach critical mass include:
  - **Rising CAC**, both online (increased competition and need to acquire more and more customers beyond the core/initial audience) and offline with the (costly) adoption of more mass market communication strategies, adding investments in more traditional channels (billboards, TV, etc.) to social media campaigns;
  - **Difficult internationalization**: limited barriers to entry and numerous copycats having already multiplied in every other country (e.g. mattress), coming back to the rising CAC issue;
  - **Difficult omnichannel development** with additional distribution channels such as offline points of sale (stores, showrooms) or even, in some cases, indirect distribution (e.g. Feed in France);
  - **Risky product expansion** to grab a greater share of the value in their respective verticals (e.g. from mattresses to bed linen).

MATTRESS, ANYONE?

DNVB	*HQ*	*Inception*	*$ raised*
Casper	US	2013	$340m
SIMBA	UK	2015	$104m
leesa	DE	2014	$32m
eve	UK	2015	$32m
tediber	FR	2015	$2m
Emma	DE	2015	-
Allswell.	US	2018	by Walmart

Sources: Capital IQ; Crunchbase; Clipperton analysis

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THE CONSOLIDATION WAVE OF DNVBs IS YET TO HAPPEN.

NICE EXITS FOR LOCAL LEADERS WITH BOTH CORPORATES & PE FUNDS AT LOFTY REVENUE MULTIPLES

First consolidation moves seem to indicate that the most natural exit path for DNVBs is with traditional brands (e.g. Bonobos acquired by Walmart, Dollar Shave Club by Unilever). An explanation for this trend may lie in the tremendous network effect that large CPG groups can bring to the table for the most successful DNVBs looking to expand beyond their "native" markets.

Private equity funds with track-records in consumer brands offer an interesting alternative to finance the expansion of DNVBs (e.g. Sézane x General Atlantic). Indeed, most successful DNVBs constitute an attractive investment case for funds given their superior growth levels vs. traditional retail assets, limited risk profiles and significant profitability levels at maturity.

Sources: Capital IQ; Crunchbase; Clipperton analysis

MIXED RESULTS FOR THE FEW IPOs CARRIED OUT SO FAR

The rare first IPOs carried-out so far displayed mixed results, as some of them are doing fairly well (e.g. Peloton) while others are proving to be quite deceitful. Nevertheless, it is difficult to judge at this stage due to the lack of benchmarks and recent IPOs (e.g. Casper) will have to be closely watched.

INTERNATIONAL LEADERS? NOT SO FAST KID

5 years after the acceleration of DNVBs financing in 2014, we could have expected category leaders in mature markets to seek geographical expansion, through the acquisition of local players. Evidence shows a still limited number of truly international DNVBs and suggests that it is probably too early to draw a conclusion on the expansion power of DNVBs beyond their core markets. However, some DNVBs are now active as minority investors (e.g. Harry's in Hims). Furthermore, PE funds such as General Atlantic, that is supporting Sézane's expansion in the US, are involved. This proves that the time for ambitious international development plans has come.

SO WHAT'S TO EXPECT FOR THE YEARS TO COME?

DNVBs are definitely not a buzz word and they have their own specificities and dynamics that have been well identified by investors. These brands have established new business standards in the Consumer-Internet-and-ecommerce space and are poised to become a major category in the retail industry as a whole. Nearly 10 years after the launch of the first DNVBs, a growing number of these new brands are now approaching maturity. At the same time, the most recent cohorts of players are even stronger as new DNVBs, integrating best practices, keep on popping-up in several yet untouched verticals. As a result, we anticipate the following trends from 2020 onwards:

- **More selected early-stage financings, focused on new verticals** (cosmetics, specific food categories, luxury jewelry, soap & detergent, you name it!). It might be difficult to start a DNVB in mattresses (unless proven otherwise);
- **More growth financings focused on proven business economics** with a preference for subscription models, high repeat rates and gross margins (how surprising!);
- **More consolidation plays with a mix of nice exits at high revenue multiples** (i.e above ecommerce peers) and undisclosed ones (again, follow the mattress category for instance);
- **Few IPOs**, unless they are really big/international players (and there are not that many).

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