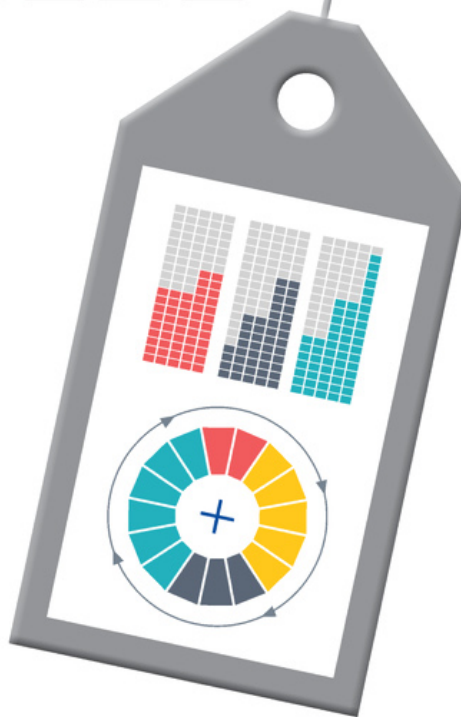


MERGERS & ACQUISITIONS

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Crunching Retail

Strategic buyers and private equity firms chase analytics providers that help merchants figure out what works and what doesn't



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Cover Story

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Merchants are struggling to keep up with changing customer behavior, and the consequences of misunderstanding it are dire. Witness the bankruptcies of Aeropostale, American Apparel and Sports Authority, all of which miscalculated the importance of e-commerce, among other mistakes. Online sales still make up only a small fraction of overall retail sales (about 8 percent), but that's where all the growth is. While e-commerce expanded nearly 16 percent in the second quarter over the same period a year earlier, overall retail sales grew only about 2 percent, according to the U.S. Department of Commerce. Innovative technology offers an unprecedented set of tools to measure and analyze what customers are doing. Meanwhile, e-commerce giant Amazon is experimenting with a slew of physical extensions, including pop-up retail sites and curbside locations for pick-up services, or "click and collect." To make sense of it all, retailers are increasingly turning to analytics providers for help. Companies that measure consumer behavior, such as JDA Software, Mi9 Retail and ShopperTrak, have become desirable targets for strategic buyers and private equity firms alike.

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Strategic buyers and private equity firms chase analytics providers that help merchants figure out what works and what doesn't

BY DEMITRI DIAKANTONIS



Cover Story

“In a lot of these environments, companies don’t know their customers as well as they could,” says Rich Lawson, CEO of PE firm HGGC, which has been making add-on acquisitions to its platform company Survey Sampling, a provider of brand tracking and other services.

As the online channel continues to experience strong growth and gain a greater share of the consumer market, retail and consumer executives are increasingly focused on migrating to lower-cost operating structures that support the changing balance of revenues from retail stores to the online channel, resulting in the outright sale or closing of brick-and-mortar locations, says PwC in a report published in October.

“New business models are appearing



Rich Lawson



Bloomberg

that will have a profound influence across the e-commerce and wider retail value chain,” says a report from Ovum. “At the same time, consumer behaviors and expectations are evolving.”

Here are profiles of five buyers that have been snatching up retail analytics providers.

1. Blackstone

Blackstone Group LP (NYSE: BX) and New Mountain Capital have invested \$570 million in retail data provider JDA Software Group Inc.

JDA develops data software that allows retailers to manage inventory and logistics based on sales, consumer demand and future forecasts. The target has more than 4,000 customers, including 78 of the top 100 retailers, such as Modell’s. JDA has helped Modell’s with inventory and shipping management for the company’s e-commerce business.

JDA is going to use the investment to develop new products and further advance its existing software, including Retail.me. The latter assists retailers visually plan merchandise based on

customer buying behavior through data. Retailers can also directly coordinate with manufacturers to create products and planograms using analytics through the software. JDA was founded in 1985 and is based in Scottsdale, Arizona.

JDA says the company “is uniquely positioned to help companies capitalize on the digital transformation affecting today’s supply chain with the emergence of the Internet of Things, big data and analytics.”

2. HGGC

Middle-market PE firm HGGC has acquired online marketing research company Instantly Inc., for an undisclosed amount, to add to Survey Sampling International, which HGGC acquired in 2014.

Instantly provides online and mobile marketing research tools such as surveys and shopping demographics. Some of its past clients include 3M Co. (NYSE: MMM), Kellogg Co. (NYSE: K) and McDonald’s Corp. (NYSE: MCD).

HGGC has been making add-on deals for Survey Sampling, including its investments in MRops, MyOpinions

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and SmileCity. Survey Sampling provides data research services, such as data collection and brand tracking. Survey Sampling is located in Shelton, Connecticut, and Instantly is based in Los Angeles.

“There was once an industrial revolution and now there’s a digital revolution,” Lawson tells Mergers & Acquisitions. “We’re finding pockets of opportunities in the data market. Data is changing everything. I think there’s a tremendous amount of M&A in the space.”

In addition to Instantly, HGGC is also invested in MyWebGrocer, which provides analytics on consumer shopping trends for grocers. MyWebGrocer predicts that online grocery sales will reach around \$18 billion by 2018.

3. Summit Partners

Summit Partners has invested in Mi9 Retail, a retail data company. Mi9 measures shopping behavior, inventory

management and sales per product. Some of its clients include Barneys New York, Century 21 and Talbots.

Summit has been making add-on acquisitions for Miami-based Mi9. In 2016, the company purchased Upshot Commerce, a provider of e-commerce services. “Retailers that sell merchandise in stores as well as online need to master an omni-channel strategy to maximize their growth,” Mi9 said. Also in 2016, Mi9 bought Applications Systems Corporation, a data software provider for jewelers.

4. Tyco

Security company Tyco International plc (NYSE: TYC) purchased retail data tracker company ShopperTrak for \$175 million in cash.

The target gauges customer traffic and consumer behavior for more than 1,200 retailers, including Crate and Barrel and Harry & David.

ShopperTrak follows up Tyco’s 2015 purchase of Footfall, a retail analytics firm. Footfall provides analytics on shopper traffic. Footfall tracks more than 15 billion shopper visits worldwide.

Tyco has since combined Chicago-based ShopperTrak and Footfall into one company under the ShopperTrak brand in Tyco’s retail solutions group. ShopperTrak and Footfall, combined, count about 40 billion shopper visits annually. Tyco’s retail solutions division provides safety and security, loss prevention, inventory management and data analytics. The business serves more than 200 retailers globally.

“The retail industry is moving through a period of remarkable change. At the same time, technologies are advancing faster than ever before,” says Bjoern Petersen, Tyco’s retail solutions president.

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5. Wal-Mart

Wal-Mart Stores Inc.'s (NYSE: WMT) Silicon Valley-based technology arm, dubbed @WalmartLabs, has acquired technology company PunchTab. Wal-Mart said the deal was made to improve service with Sam's Club customers.

Palo Alto, California-based PunchTab is a loyalty and customer engagement firm that helps brands and businesses improve store traffic and sales through loyalty and reward programs. For example, PunchTab offers consumers a reward when they upload a receipt showing they purchased a particular product. PunchTab, founded in 2011, previously worked with the Arby's restaurant chain and Yankee Candle.

Notable Retail Bankruptcies

Struggling to respond to the changing habits of consumers, many retailers declared bankruptcy in 2015 and 2016.

Target	Year of Bankruptcy	Status
Aeropostale Inc.	2016	Still pending
American Apparel Inc.	2015	Exited in 2016
Pacific Sunwear of California Inc.	2016	Exited in 2016
RadioShack Corp.	2015	Exited in 2015
Sports Authority Inc.	2016	Still pending
Wet Seal Inc.	2015	Exited in 2015

Source: Mergers & Acquisitions

"This means we get to build and test new ways for customers to shop online and on mobile for Walmart's brands around the world," Bentonville, Arkansas-based Wal-Mart said about the acquisition. Wal-Mart noted that with the addition of PunchTab,

the company will be able to improve customer relationship management tools—the technology that reaches its customers across email, its websites, mobile phones and its stores.

PunchTab is not the first retail data acquisition @WalmartLabs has made. In 2011, the company purchased Grabble and OneRiot.

"A strong labor market and relatively weak consumer goods prices have increased consumers' relative purchasing power, and consumer confidence is now at its highest level since the Great Recession. Holiday spending on gifts, travel and entertainment is expected to increase 10 percent when compared with the 2015 holiday season," says PwC.

More M&A activity among retail analytics providers is expected. For example, in October, business process technology provider Sutherland Global Services Inc. purchased Nuevora, which analyzes customer data. "The retail supply chain is a very complex one," says Greg Ager, managing director of Signal Hill, who advised Quantum Retail Technology on its 2015 sale to Versata Enterprises. "Everyone is looking for a single version of the truth. It's not an easy thing to do, but everyone is trying to do it."



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Targeting Digital Marketers

Aside from data providers, buyers have been going after digital advertising companies. These firms create ads for retailers for their e-commerce sites, as well other sites and mobile devices. Nespresso, Procter & Gamble and Toys “R” Us are some consumer companies that have been engaging such services. Here are three buyers of digital marketing firms:

Criteo

Criteo SA (Nasdaq: CRTO) bought HookLogic for \$250 million to expand its retail digital marketing business. HookLogic, based in New York, helps companies including Procter & Gamble Co. (NYSE: PG), Keurig and Nespresso position ads on a network of retail websites. For example, HookLogic helped coffee machine maker Nespresso place an ad on Macys.com so that when shoppers searched the retailer’s website for the term “coffee maker,” Nespresso’s machine would show up high in the results.

Trans World

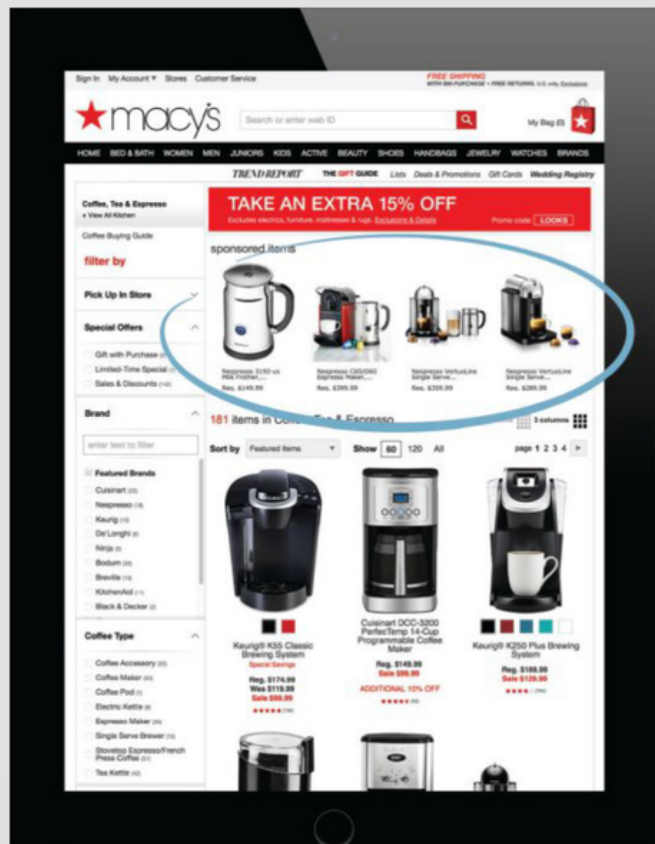
Trans World Entertainment Corp. (Nasdaq: TWMC) acquired digital marketing and consulting firm Etailz Inc. for \$75 million in cash and stock. The acquisition will help the Albany, New York-based owner of the FYE DVD and CD retail chain expand its e-commerce presence, as consumers shift much of their shopping activity to the internet and mobile devices.

Etailz helps retailers with website development, search engine optimization, email and social media marketing. The company also uses data to identify new distributors and wholesalers, product trends, price positioning and inventory purchasing. The target is headquartered in Spokane, Washington.

WPP

WPP plc’s operating company Xaxis has agreed to buy Triad Retail Media. St. Petersburg, Florida-based Triad creates ads for retailers to sell on their e-commerce sites. Some of its clients include Kohl’s Corp. (NYSE: KSS), Sam’s Club, Toys “R” Us and Wal-Mart.

Triad will benefit from Xaxis’ digital advertising services. For instance, if Triad makes an ad for a brand to go on a specific home page, Xaxis can send a version of that same ad to particular customers across mobile devices and desktops. Xaxis can then track consumer behavior and interaction from those ads.



HookLogic