

A blue-tinted photograph of a man and a woman in a kitchen. The man has a beard and is wearing a striped shirt, looking down at something in his hands. The woman has long dark hair and is wearing a polka-dot top, also looking down. They appear to be preparing food together.

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

BatteriesPlus, EVEREVE, Radiance Holdings, REBAG, SLIM CHICKENS, WSS

Recreation

Barletta Boats, Getaway

Vehicle aftermarket

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

FOCUS OF INVESTOR Q&A

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

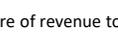
Reopen with lower footfall, but higher intent to buy, increasing conversion

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

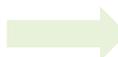
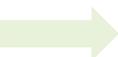


e-commerce
(DTC & third party)

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

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 ⁽¹⁾

Amazon plans to increase its US fulfilment capacity by 50% ⁽¹⁾

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**

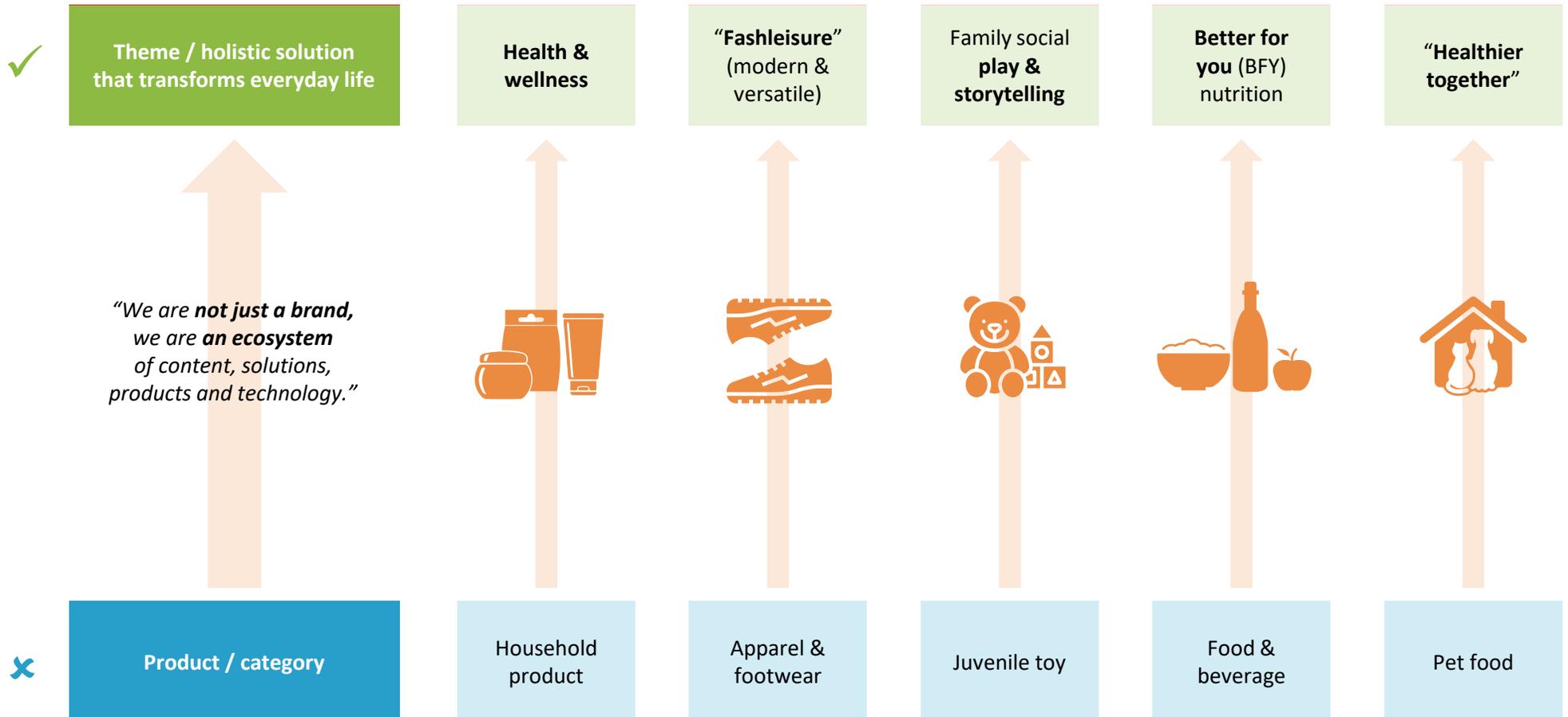
Complex / **formulated** additives

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:

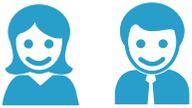


	Affordable premium “fashleisure” retail	Affordable premium baby products	Premium enthusiast cycling apparel	Prestige home fragrances	Home & garden products
Gender	Female	Primarily female	Male 80% / female 20%	Female 80% / male 20%	Female 60% / male 40%
Age	35 – 54	Millennial mom	25 – 70	25 – 64	Primarily 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

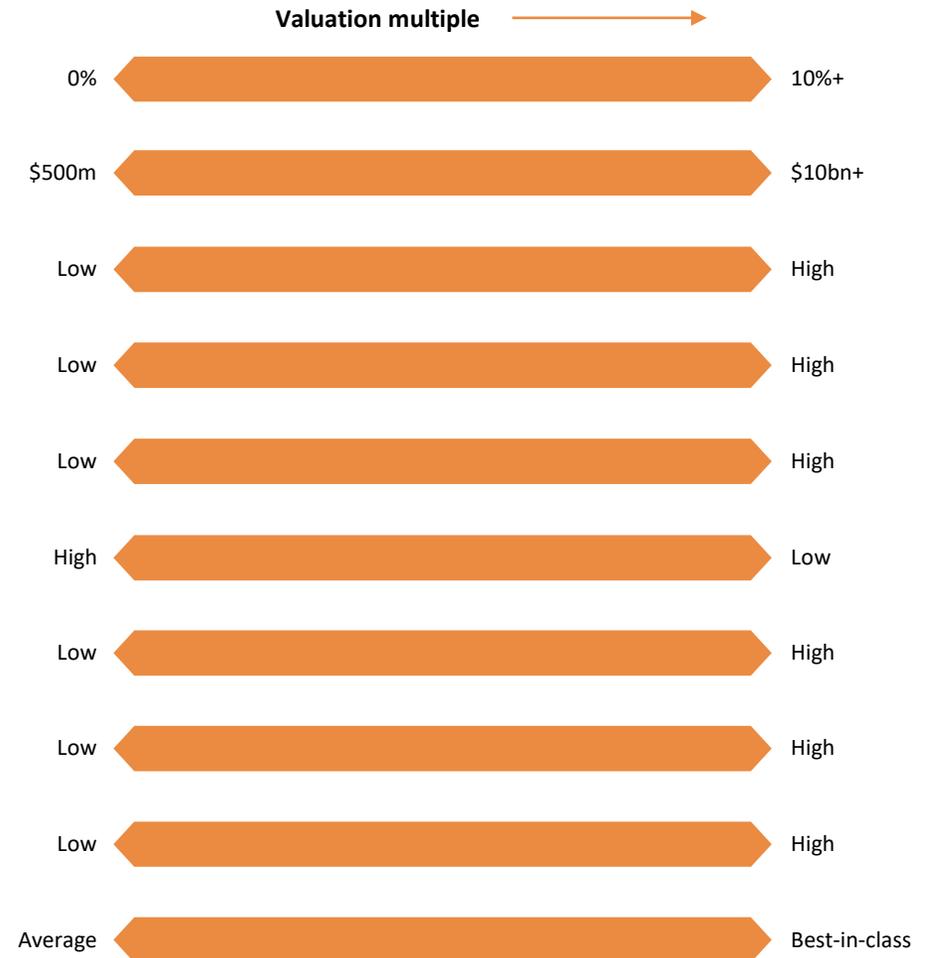
Low cost domestic manufacturing at scale

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

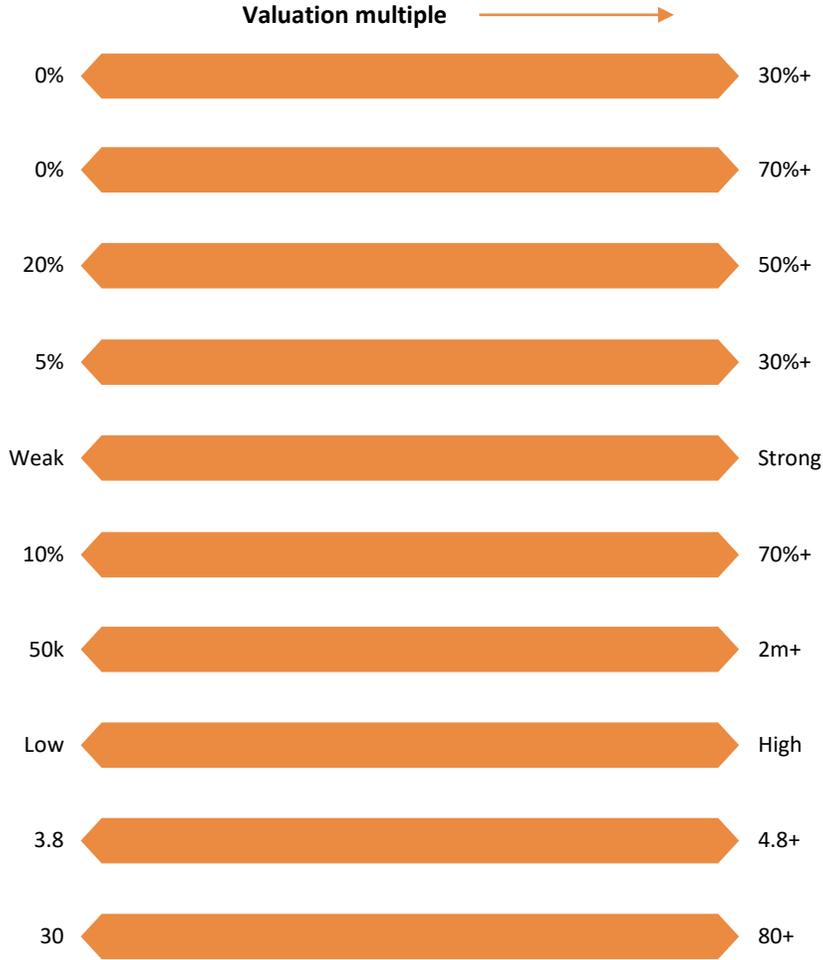
Growing addressable market	Supported by secular growth themes, not cyclical / seasonal
Large addressable market	Low penetration and growing market share for the company
Innovation	Differentiated product, leading or disrupting the category
Lifestyle / better for you	Part of customer identity, seen as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



WHAT ARE THE KEY METRICS THAT DRIVE VALUE?

Selected financial and operational metrics for mid-market consumer businesses

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



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