Adtech companies see paths diverging in hostile marketplace – bankers
by Jonathan Guilford, Mark Andress and David B Wilkerson
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- AppNexus leading light on IPO path
- MediaMath, TradeDesk among those stuck raising private rounds
- Collective, Specific Media look for salvation from big telco players

Private adtech companies are separating into four distinct groups, each with differing potential fortunes in the private and public markets, industry bankers and sources told this news service.

Public markets have been unfriendly to adtech companies over the past couple of years, with shares in the sector's leaders steadily falling.

TubeMogul [NASDAQ:TUBE] shares have fallen from USD 22.55 at the start of the year to USD 10.73 in recent trading. **Rocket Fuel** [NASDAQ:FUEL], which priced at USD 29 when it launched its IPO in September 2013, is trading around USD 5.43. **Millennial Media** [NYSE: MM], a leader in mobile advertising that went public at an almost USD 2bn valuation in March 2012, sold to **AOL** earlier this month for just USD 238m.

Public investors' cooling on adtech has been so severe that, according to two sector bankers, only one private adtech company is currently seen to still be on a definite path to IPO: **AppNexus**.

The New York City-based company, valued last summer at USD 1.2bn, provides a cloud-based platform for automated advertising and has already raised USD 288.2m in private funding from eight rounds, according to CrunchBase.

Nonetheless, companies that can differentiate their offerings from the average digital-based, mobile-based ad tech players have still performed well, noted Vineet Asthana, a banker at Berkery Noyes. The marketing technology company **Marketo** [NASDAQ:MKTO], which has a big play in adtech, is one such firm, Asthana said.

Carousel of funding

In the tier below AppNexus are sizable private adtech companies that are stuck in a holding pattern of continuing private funding raises, without a clear path to an IPO, the first two bankers said. These include**Taboola**, **Turn**, **AdRoll**, **Quantcast**, **Pubmatic**, **MediaMath** and **The Trade Desk**.

Each bring in revenue in the USD 200m to USD 300m range and have the financials to go public, said the first banker. But these companies can raise money with a valuation at a higher multiple of revenue from the private capital markets than the public, this banker added, eliminating part of the impetus to go public.

As this news service reported last week, MediaMath and Trade Desk are both currently seeking further rounds of private funding.

This group has raised substantial amounts of funding and their investors are holding out for paydays, which potential acquirers find prohibitive.

Speaking to this news service on the sidelines of the Goldman Sachs Communacopia Conference in New York last week, **WPP** [LON:WPP] CEO Martin Sorrell said that, while his company is studying companies like these for potential purchase, they have not become sufficiently “flexible” on valuation yet. Sorrell said it will likely require “more time” until the companies will accept a valuation that bidders would find attractive. WPP is a major investor in AppNexus.

Road to salvation

A third tier of companies include those that have raised smaller amounts — typically USD 50m or less — which means their investors are willing to sell in the more reasonable USD 100m to USD 150m range. Dealmaking among these players remains fairly robust, with three or four selling every year, said the first banker. For example, **Yieldex**, which had raised USD 18.5m since starting in 2007, sold to AppNexus for USD 100m in March.

A fourth group is often known as the "walking dead" because changes in the technological and competitive landscape have put significant pressure on their business models and consequently left their investors with few liquidity options, the bankers said. While they have substantial revenue of hundreds of millions of dollars and can keep on operating, their slow growth and aging technology makes going public difficult.

This tier includes companies like **Collective**, **Specific Media**, **Exponential**, **Adknowledge** and **Undertone**. Many of these started off as advertising networks and used sales representatives to place advertising. This service, however, has been replaced by programmatic technology and software tools, which automate the placement of advertising and the management of campaigns. These laggards are now trying to acquire or develop these technologies, the bankers said.

Backers of these companies are left with the "conundrum of how to monetize their investment," the second banker said, adding that there are "no easy solutions" for these companies.

Both bankers cautioned that a roll-up is a difficult proposition, with the first banker adding specifically that a private equity roll-up is extremely unlikely given cash flows are under pressure and there is little prospect of a future exit.

According to the first banker, these companies are engaged in conversations with each other regarding M&A, but would likely need to wait for a large, cash-rich strategic to acquire them and allow VC backers a clean exit.

Large telcos, big traditional media companies, offline data providers and mail-order catalog companies that need a digital platform could emerge as buyers of this final group, said the first banker.

This banker pointed to **Verizon**'s [NYSE:VZ] purchase of AOL and **Alliance Data**'s [NYSE:ADS] purchase of **Conversant** as examples giving the industry some hope.

Comcast [NASDAQ: CMCSA] is another providing hope with its digital investments across adtech, which it expects to play a bigger role in cable as media and technology converges, said Berkery Noyes's Asthana.

Big data in general remains a "hot topic", added Asthana, with **Oracle**'s [NASDAQ: ORCL] purchase of **Blue Kai** as an exemplar. In fact, Asthana was bullish enough to go further, disagreeing with the other two bankers over whether deals will be limited to strategics: "I think within the tech sector, mobile, social and video are still areas to be bullish about. [Private equity firms] are going to make bets there."