

Naver's Acquisition of Poshmark for \$1.2bn

SORTINOMAGROUP.COM

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Source: Retail Technology Innovation Hub

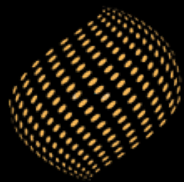


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DEAL INTRODUCTION

DETAILS ABOUT THE DEAL

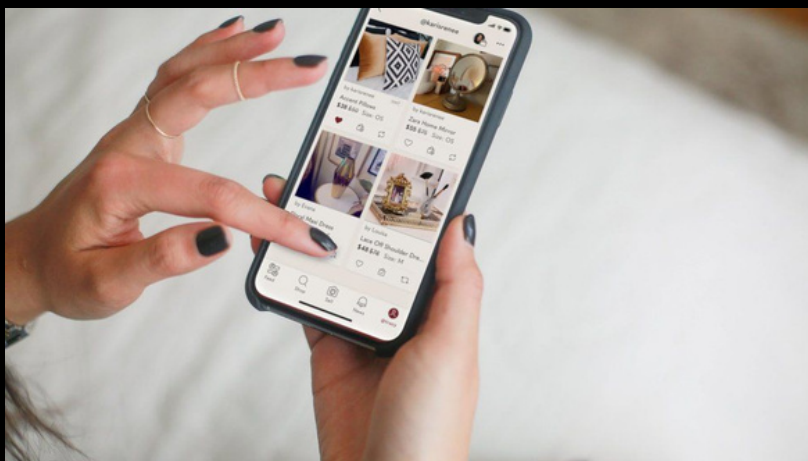
In early October, it was announced that the South Korean conglomerate, Naver, was acquiring Poshmark, a U.S. fashion resale platform, for \$1.2 billion.

Naver will pay \$17.90 for each issued and outstanding share; a 15% premium on the market close as of October 3rd.

With Poshmark's 80 million user base, Naver will look to integrate their advancing artificial intelligence and image recognition technology in an attempt to drive revenues in a challenging economic climate.

Naver have projected that within two years Poshmark's annual revenue could grow beyond 20% and that the firm could save \$30 million annually via streamlining processes.

This acquisition also facilitates Naver's ambition to strengthen their U.S.. ventures, by developing a solid foothold with Poshmark's wide brand image.



Source: BBC



INDUSTRY OVERVIEW - ONLINE PLATFORMS

TRENDS FOR 2022

- Rise in use of TikTok and short-form video content in social media sector, as well as anticipated rise in use of networks such as Pinterest and Snapchat.
- Increased amount of content in video format; it is expected that currently, 82% of online content is in video.
- Only 6% of users find shopping experiences as 'always relevant', meaning that there is further space for growth in the personalisation of online content.
- Social commerce becoming increasingly important for e-commerce business.

HISTORICAL TRENDS

- Industry dominated in the West by US companies like Google, Microsoft Bing, Yahoo, Meta, but increasing use of Asian e-commerce and social media platforms such as TikTok and Boohoo.
- Large increase of personalised search engine tools via cookies.
- Recent limit on the use of cookies and personalised experiences due to GDPR rules.

REASONS FOR M&A

- $\frac{2}{3}$ of e-commerce users find personalised shopping lacking in online platforms, and over half of Gen Z users claim they would like to avoid using Amazon → opportunities for Naver to invest in providing more personalised shopping experiences to reach out to these consumers who are looking for alternatives to Amazon.
- Twitter may see decline in use from younger audiences due to controversial policies by Elon Musk to bring back banned users: uncertainty of the leadership by Musk may lead to users switching to more regulated platforms, giving opportunities for Naver to expand their communications sector more into the social media industry.



ACQUIRER OVERVIEW



TICKER: KRX

NAVER

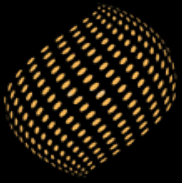
- S. Korean online platform (internet conglomerate) that provides an online Q&A platform, TV services, and communication services such as mobile and video.
- Accumulates over 82M users worldwide and employs 4,103 individuals.
- More popular than Google in S. Korea (no.1 search engine) - meets consumer needs of language nuances that Google cannot replicate for Asian market.

BUSINESS MODEL

- Global ITC company with business model of making profit through usage of various services and gaining dominance in Korean markets in comparison to Western alternatives such as Google.
- Tailoring services to market to outcompete foreign competitors by designing an app for all navigation needs.
- Goal is to rethink internet browsing as it currently stands.



Source: KED Global



ESG PRACTICES

3 Focus Areas:

- Environmental value creation
- Privacy and human rights
- Social value creation

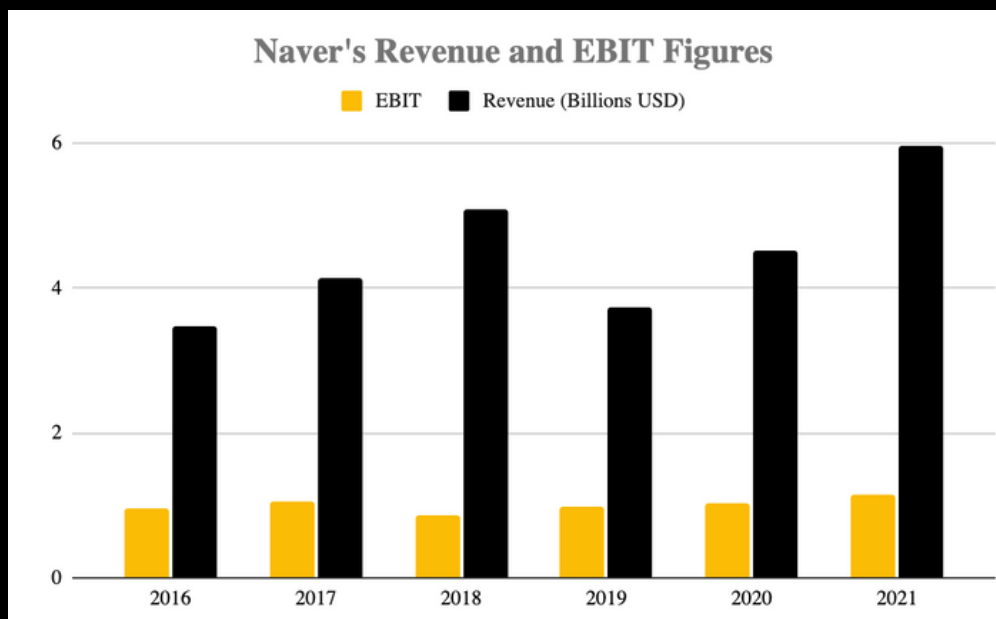
Current Progress:

- In 2021 alone, provided 340k eco-friendly bags to the improvement of logistics system and packing materials
- Establishment of Naver's human rights management system, which includes fair compensation, extensive employee training and is in line with global human rights guidelines
- Supported **SMEs** through Naver Business School, providing resources for digital transformation and business expansion.

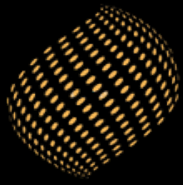
Future Goals:

- In the future, Naver hopes to establish an action plan for green e-commerce ecosystems as well as managing their partners' ESG risks.

KEY FINANCIALS



	2016	2017	2018	2019	2020	2021
EBIT Margin	27%	25%	17%	27%	23%	19%



TARGET OVERVIEW



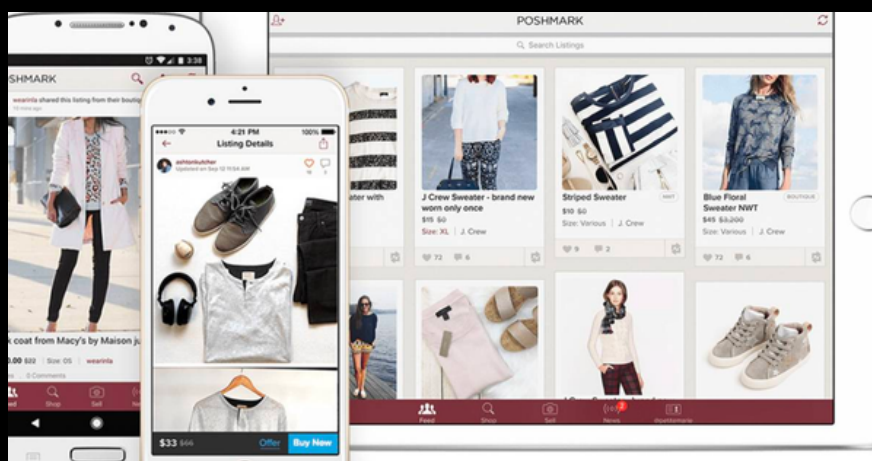
Ticker: POSH

POSHMARK

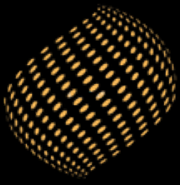
- US e-commerce company, based in Redwood City, California, who employs 800 individuals.
- The platform offers users the ability to sell apparel, home decor, beauty products and accessories.
- Accumulates 80M users and has 200M active listings on its website.

BUSINESS MODEL

- Poshmark's business model is simple; 97% of its revenue comes from commission charged upon the sale of each item, and the other 3% comes from the sale of labels used to ship products listed.
- Poshmark charges \$2.75 to the seller if the item was sold for less than \$15, and items above that amount are charged a 20% commission fee.
- This business model is in line with industry practices, although the commission percentage varies across platforms.



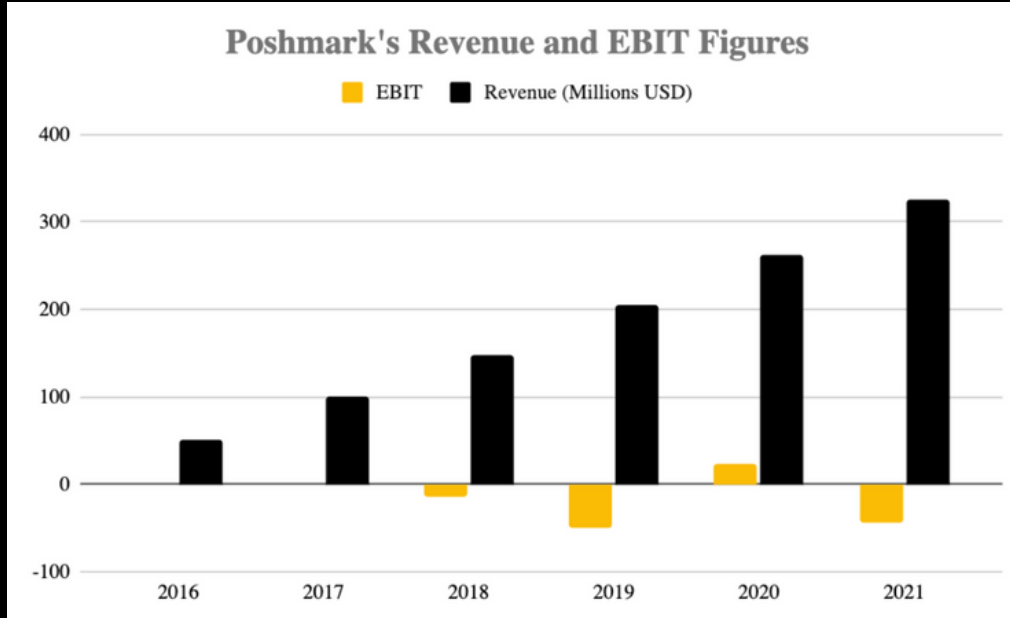
Source: Fashion United



ESG PRACTICES

- At an environmental standpoint, it is clear to see how Poshmark's activities benefit the environment in a positive way. It is estimated that 92 million tonnes of newly produced textiles are wasted every year, and the resale clothing market helps combat this number. However, the shipping process of these items certainly pollutes the environment, and it is unclear the commitment Poshmark has in limiting this damage.
- At a governance standpoint, it does seem that Poshmark has a diverse leadership team, which could help promote inclusion in the workplace, however, the company does not produce an ESG report, and thus, the statement above cannot be confirmed.

KEY FINANCIALS



	2018	2019	2020	2021
EBIT Margin	-10.1%	-24.3%	8.78%	-13.5%

Poshmark's EBIT figures between 2016 and 2017 was not accessible online, however, the revenue since 2016 was retrieved, as illustrated above.



DEAL ANALYSIS

STRENGTHS

This acquisition demonstrates Naver's ambitions to expand into the US market, and also grow Poshmark through Naver's native South Korean market.

Increases the range of products for those using second-hand fashion services. In terms of ESG, it is thought that second-hand fashion will dominate the industry in the coming years as people change to reusing clothes rather than buying new. This acquisition will facilitate the start of this transformation. As of 2021, second-hand marketplaces are growing faster than the top 100 global marketplaces.

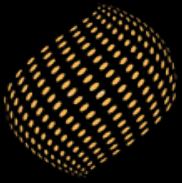
Will provide innovation to a relatively static industry, by developing AI technology and introducing new features such as live shopping, personalised recommendations, and virtual 'try on imagery'.

OPPORTUNITIES

2/3 of e-commerce users find personalised shopping lacking in online platforms, and more than half of Gen Z claim they would like to avoid using Amazon, according to a report by Coveo. This provides an opportunity to Poshmark to utilise Naver's advancing AI and algorithmic technology to provide a more personalised shopping experience.

This acquisition facilitates Naver's ambitions to strengthen their US presence, and may be the trigger for several more US acquisitions.

Poshmark's target demographic is very large, over 166 million in the US, specifically targeting millennials and Gen Z.



WEAKNESSES

Naver's CEO Choi Soo-Yeon has already noted concerns about Poshmark's short term profitability, however, has good expectations for longer term profitability. In Q2 of 2022 Poshmark reported adjusted EBITDA losses of \$9.8 million.

Poshmark's five-year compound annual growth rate (CAGR) is 43.5%, which is higher than the global fashion market (32.7%), but 7% less than the average CAGR of the global second-hand fashion market.

The fashion industry is very saturated, Poshmark may find it challenging to break into the bracket of Amazon, eBay and Zalando.

THREATS

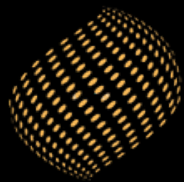
Industry predominately dominated by fast-fashion firms such as Shein, ASOS and H&M, therefore without incredible levels of capital, it may be very challenging for Poshmark to break into the re-selling niche without a larger firm following suit.

In terms of recent activity in the industry, Etsy bought the British fashion platform Depop for a 23x revenue multiple resulting in a valuation of £1.1bn. Ever since, Depop has made a profit of £400k profit and a £84.5k loss in 2020 and 2021, respectively, reflecting Naver's similar challenge at hand.



Source: KED Global

Choi Soo-Yeon, Naver CEO



VALUATION ANALYSIS

DISCOUNTED CASH FLOW ANALYSIS (DCF)

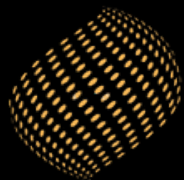
Enterprise Value	737,930
(+) Cash	581,538
(-) Debt	(3,247)
Equity Value	1,316,221
Diluted Shares	78,210
DCF Implied Share Price:	\$ 16.83
Naver Share Price Offer:	\$ 17.90
Acquisition Premium (Discount):	6.4%

[Please click on the table to access full model.](#)

As calculated by the Discounted Cash Flow (DCF) Analysis, the Poshmark stock was slightly undervalued at the time of Naver's offer of acquisition, at \$15.57. Through the DCF analysis, the valuation derived in the base case suggests that Poshmark's fair value was \$16.83 and thus, Naver could have paid a 6.4% **premium** for the target.

To build the model, various assumptions were taken into consideration, two crucial ones being the **Terminal Growth Rate** (2.5% in the base case), and the **Weighted Average Cost of Capital (WACC)** (7.36% in the base case). Therefore, it must be noted that the valuation obtained from the model was affected by these assumptions.

Additionally, an analyst consensus of projections for key financials for Poshmark was used to cross-reference research findings, which could have resulted in a more accurate model.



VALUATION ANALYSIS

COMPARABLE COMPANIES ANALYSIS (CCA)

<u>E-Commerce Platforms</u>	Low	High
Selected EV Multiple:	1.2x	2.0x
Implied Enterprise Value	108	176
Net Debt	581	581
Implied Equity Value	689	757
Equity Value per share	\$ 8.70	\$ 9.55
Premium / (Discount) %	105.79%	87.40%

[Please click on the table to access full model.](#)

Based on the comparable company analysis (CCA), Poshmark's **valuation multiples** appear to be higher than the mean and median of the companies chosen. Out of the selection made, most comparable companies appeared to have negative **EV/EBITDA** valuation multiples, which led to the choice of using the **EV/Revenue** in the CCA Analysis.

As a result of the multiples, the low and high **EBITDA** multiples were chosen to be (1.21x) and (1.97x), giving the implied equity values per share of \$8.70 and \$9.55, respectively. This implies that Poshmark was overvalued at the time of the offer, and that Naver paid a **premium** close to 100%.

However, it must be noted that, although the companies chosen operate in the same industry, their financials were quite different, which certainly impacted the CCA analysis conducted.



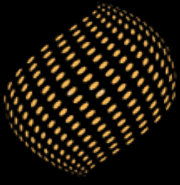
CONCLUSION

IMPACT ON INDUSTRY - SEARCH ENGINES

- Although the acquisition is expected to increase Naver's revenues in the medium to long term, it is uncertain how that will allow it to differentiate itself from its close competitors, which has led to some criticism around the acquisition.
- Naver is likely to retain itself as a leader in the South Korean search engine market, however, it is hard to imagine that Poshmark will allow Naver to increase its presence in markets such as the US and Canada.
- Thus, it seems that Google will be mostly unaffected by this, retaining its near monopolistic power in the global search engine market.

IMPACT ON INDUSTRY - ONLINE MARKETPLACE

- As for the impact this may have in the online marketplace industry, it is clearer to see where synergies may arise.
- Poshmark can take advantage of Naver's technological capabilities, strong presence in South Korea and growing e-commerce platform. This would allow it to continue to grow in markets where it has already established itself, such as the US and Canada, as well as expand in Asia, more specifically, South Korea.
- As for Naver, owning a subsidiary in the fashion re-commerce space is a strategic move, as it is able to adapt itself towards the needs of consumers globally, as well as present itself as a sustainable company, in line with its ESG profile and targets.
- Finally, Naver hopes Poshmark can benefit from ads on its platform to increase activity even in the US, a more ambitious goal.



GLOSSARY

CAGR (Compound Annual Growth Rate): The rate at which an investment would grow with reinvested profits at the end of each year.

EBITDA: Earnings before Interest, Tax, Depreciation and Amortisation. A useful measure to compare companies profitability.

EV/EBITDA: Enterprise Value 'Multiple', gives insight into the value of companies against their cash earnings less their non-cash expenses.

EV/Revenue: Enterprise Value 'Multiple', gives insight into the value of companies against their annual revenue.

Premium: Increased amount paid per share in comparison to the share price at the time of the M&A transaction, often presented as a percentage.

SME: Small and Medium-Sized Enterprises; the classification of the size of an enterprise can be dependent on revenue or headcount, depending on industry.

Terminal Growth Rate: A growth rate that a company is expected to grow at forever based on the market and industry conditions.

Valuation Multiples: Financial tool providing one metric as a ratio of another; often used to compare similar companies.

