When Stamps turn(s) digital - PE firm Thoma Bravo acquires e-commerce company Stamps.com for $6.6B

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"The closing of this transaction marks the next phase of Stamps.com's growth journey and we are thrilled about the opportunities ahead to continue driving our global strategy to capture the expanding e-commerce shipping market and extend our position as the leading global multi-carrier e-commerce shipping software company." - Ken McBride, Chairman and CEO of Stamps.com

Deal Overview

- Acquirer: Thoma Bravo, LP
- Target: Stamps.com (NASDAQ: STMP)
- Industry: E-commerce logistics
- Transaction Amount: $6.6B
- Announcement Date: Jul. 13, 2021
- Target Advisor: J.P. Morgan Securities LLC

Thoma Bravo, an American investment firm, and Stamps.com (in this article: Stamps), a leading provider of e-commerce shipping solutions, announced the completion of the acquisition of Stamps for approximately $6.6B in cash. The acquisition was previously announced on July 9th, 2021. Approximately 77.9% of the shares of the company's common stock issued and outstanding voted to adopt the agreement. Thoma Bravo will support Stamps on their future growth strategy and their digital transformation towards the e-commerce sector. The investment firm's track record and vast experience in the software-as-a-service industry will help Stamps to realize its strategic goals. Thoma Bravo operates as a private equity fund as well as a debt fund for the financing structure of the acquisition, which makes this deal particularly interesting. Moreover, no ordinary bank has been involved in financing the deal.

Companies Overview - Thoma Bravo

With over $83B in assets under management as of June 2021, American private equity and growth capital firm Thoma Bravo is a leading player in the software and technology-enabled business service industry. Thoma Bravo continues a longstanding focus on the middle market and is primarily credited for creating a solid and innovative "buy and build" investment strategy, which is based on the firm's deep sector expertise and strategic and operational capabilities. This expertise notably concentrates on a niche within the buyout industry, namely software businesses whose pricing model draws on steady, recurring sales in the form of subscriptions. In the past the fund made distinct operational tweaks to the companies it acquires, usually keeping existing management in place and concentrating on growth rather than cost-cutting. Over the past 20 years, Thoma Bravo has acquired over 325 companies worth more than $100B in enterprise value. Forbes valued Thoma Bravo at $7B in 2019, as analyses projected a promising performance of the firm's funds in the recent past. While returning 30% net annually, 25 investments were sold or listed at $20B since 2015, which represented four times their cost. Thoma Bravo announced take-private deals for security software vendor Proofpoint and data solutions provider Talend earlier this year.

Companies Overview – Stamps.com

Stamps.com is a leading provider of e-commerce shipping software solutions located in El Segundo, California. Until its acquisition by Thoma Bravo, it was a public company traded on the NASDAQ exchange under the symbol STMP. The company was founded in 1996 by Jim McDermott, Ari Engelberg, and Jeff Green and was among the first companies to introduce internet postage to the market. Before Stamps raised $55M in its IPO in June 1999, three private funding rounds between 1998-1999 allowed for a raise of roughly $36M. Notable acquisitions in the following years included the purchase of IShip.com for $305M in 1999, Endicia for approximately $215M in 2015, ShippingEasy, Inc. for $55M in 2016, and MetaPack Ltd for approximately $175M in 2018. The following chart shows the financial performance of Stamps over the last 4 years.

Stamps' e-commerce shipping software solutions address the customer's shipping operations, helping them to function more successfully through the provision of seamless access to mailing and shipping services. Its services target home offices and small businesses and enable them to print U.S. Postal Service-approved postage right from the workplace. Stamps by now has close to 732'000 monthly subscribers and follows a subscription-based pricing model for its core services. The company has partnered with Microsoft and has made the integration of its online postage system possible with applications including Microsoft Word, Outlook, Act! and Intuit's QuickBooks as well as with the e-commerce platforms Amazon.com, Magento, eBay, and Shopify.

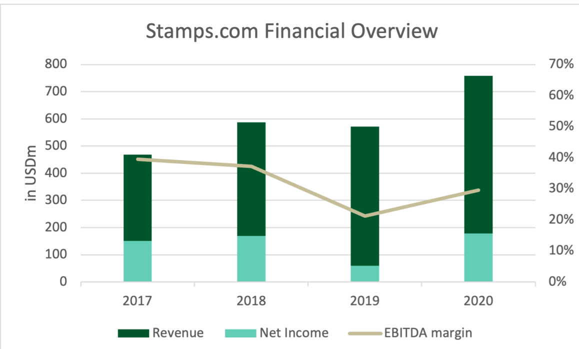

Figure 1: Source: Annual Report Stamps.com – Own illustration.

State of the Industry – E-commerce logistics

The Covid-19 pandemic has had a big impact on the logistics industry. As lockdowns started to turn into normality, consumers and businesses increasingly went digital, which led to growth in the e-commerce logistics market. Online retail sales increased 32.4% year over year in 2020 and are up 39% in Q1 2021. This transformation has shown as the global e-commerce market share grew from 14% in 2019 to 17% in 2020. The uplift of the industry has been recognized worldwide, yet emerging countries have made the greatest shift towards online shopping. From August 2019 to August 2020, the online share of retail in China rose by roughly 5 percentage points to 24.6%. In Kazakhstan, this market share increased from 5% to 9.4%, while in Thailand the downloads of online shopping apps have increased by 60% in one week back in March 2020. The growth is not expected to stop as soon as the effects of Covid-19 lockdowns on the retail sector will begin to lessen. The market is estimated to grow from \$233.7B to \$627.7B until 2025. The growth momentum of the market is expected to accelerate at a CAGR of 20.5% during this period, an increase to the estimated 16.4% YoY growth for 2021. With the recent acquisition of Thoma Bravo, Stamps hopes to capitalize on the projected growth as well. Thoma Bravo's experience in the software-as-a-service industry will help Stamps to quickly transform its services to address domestic and cross-border shipping needs in an evolving industry environment.

Deal Structure

At the completion of the acquisition, Stamps' stockholders were entitled to receive \$330.00 in cash for each share of Stamps common stock they owned, representing a 67% premium to the closing price on July 8th, 2021. Stamps shares jumped as much as 64% to \$323.62 on Friday, about \$7 behind the offer price. The proposed transaction has been completed on October 5th, 2021, subject to the satisfaction of the closing conditions. The deal also included a 40-day "go-shop" period, which has allowed the company to consider alternative offers. Stamps common stock has ceased trading and will be de-listed from the NASDAQ Global Select Market. The deal size of \$6.6B seems to be high for the e-commerce logistics industry at first sight. Since Stamps is a logistics provider that is still growing its e-commerce business, SGFER compared the company to rivals such as FedEx, UPS, Amazon, and eBay. To make the trading multiples of the peer group comparable, the share price of Stamps one day before the announcement of the acquisition was used. The company shows trading multiples that are significantly higher than the peer group average. That being said, we have reasons to believe that higher multiples are justifiable for a company like Stamps. In fact, Stamps' less mature life stage and greater potential for future growth make it unique in the e-commerce logistics sector.

	Valuation (LFY)		
	EV/Sales	EV/EBITDA	P/E
Company Name	x	x	x
Ebay Inc.	3,8x	10,7x	12,3x
Federal Express Corp.	0,9x	8,3x	14,0x
Amazon.com Inc.	3,9x	26,5x	69,9x
United Parcel Service Inc.	2,1x	13,5x	28,6x
Average	2,7x	14,7x	31,2x
Median	3,0x	12,1x	21,3x
Stamps.com Inc	4,7x	15,7x	22,2x

Figure 2: Source: Thomson Reuters – Own illustration.

Thoma Bravo has also paid a large premium of 67%. The share price of Stamps has approached the \$330 offer of Thoma Bravo during the 40-day "go-shop" period. This indicates that investors have assumed that the bid was high enough for no other investors to make a better offer. The rationale of this deal for Stamps can partly be derived from their outlined 2021 strategy in their annual report. The document states that the companies' strategy is subject to change with a focus on expanding its e-commerce business and transforming into a multi-carrier solutions provider. The acquisition of Metapack in 2018 was the first step in this direction. A collaboration with Thoma Bravo will help the company to further fulfill its strategic realignment. The deal rationale for Thoma Bravo can be traced back to their track record. Their experience in the software-as-a-service industry as well as their strength to improve a company's operations make Stamps a sensible target. Debt financing for the transaction was provided by credit funds solely. The funds are managed by Blackstone Credit, Ares Management Corporation, PSP Investments Credit II USA LLC, and Thoma Bravo Credit. What sticks out is that the credit fund operated by Thoma Bravo itself has been involved in the debt financing of this deal.

Potential Risks & Potential Upsides

The debt structure of the acquisition has been attracting attention after the press release. All the debt for the transaction was provided by credit funds. Credit funds are unregulated entities and are not subject to the leverage lending rules of banks. Such credit funds have investors, and they will expect some sort of a return on their investment - at least higher than the return on risk-free investments such as treasury bills. Furthermore, Thoma Bravo's credit fund is involved in debt financing. This ethical dilemma can lead to two potential risks. Firstly, that the companies involved will not assess the risk of Stamps' predicted cash flows accordingly. Secondly, because it can impact the financial stability of such credit funds and the return of their investors. The growth projections stated earlier in this article are very optimistic about the e-commerce industry. A potential risk is that these growth projections will not materialize to such an extent. They are based on the assumption that consumers and businesses will not move back to their old buying behavior and retail structures. The growth projections for the industry could slump and lead to less success for both Thoma Bravo and Stamps. A big potential upside is the strategic synergies that are set to unfold between Thoma Bravo and Stamps in the next years. The private equity firm is known for following a "buy and build" strategy focused on improving the operations of the company. Furthermore, they always are willing to work with the existing management to keep building a corporate culture. Their vast experience in the software technology sector and their track record show why both companies could profit from this deal. In April 2019, Thoma Bravo has acquired Ellie Mae, a cloud-based platform provider, for \$3.7B. With the expertise of the private equity firm, the company has improved its EBITDA margin from 18% to 60% in just 18 months. Thoma Bravo sold the company for approximately \$11B after this holding period. Although this deal might be a stroke of luck, it shows one crucial factor of the firms' strategy: they focus on improving the company's operations.