



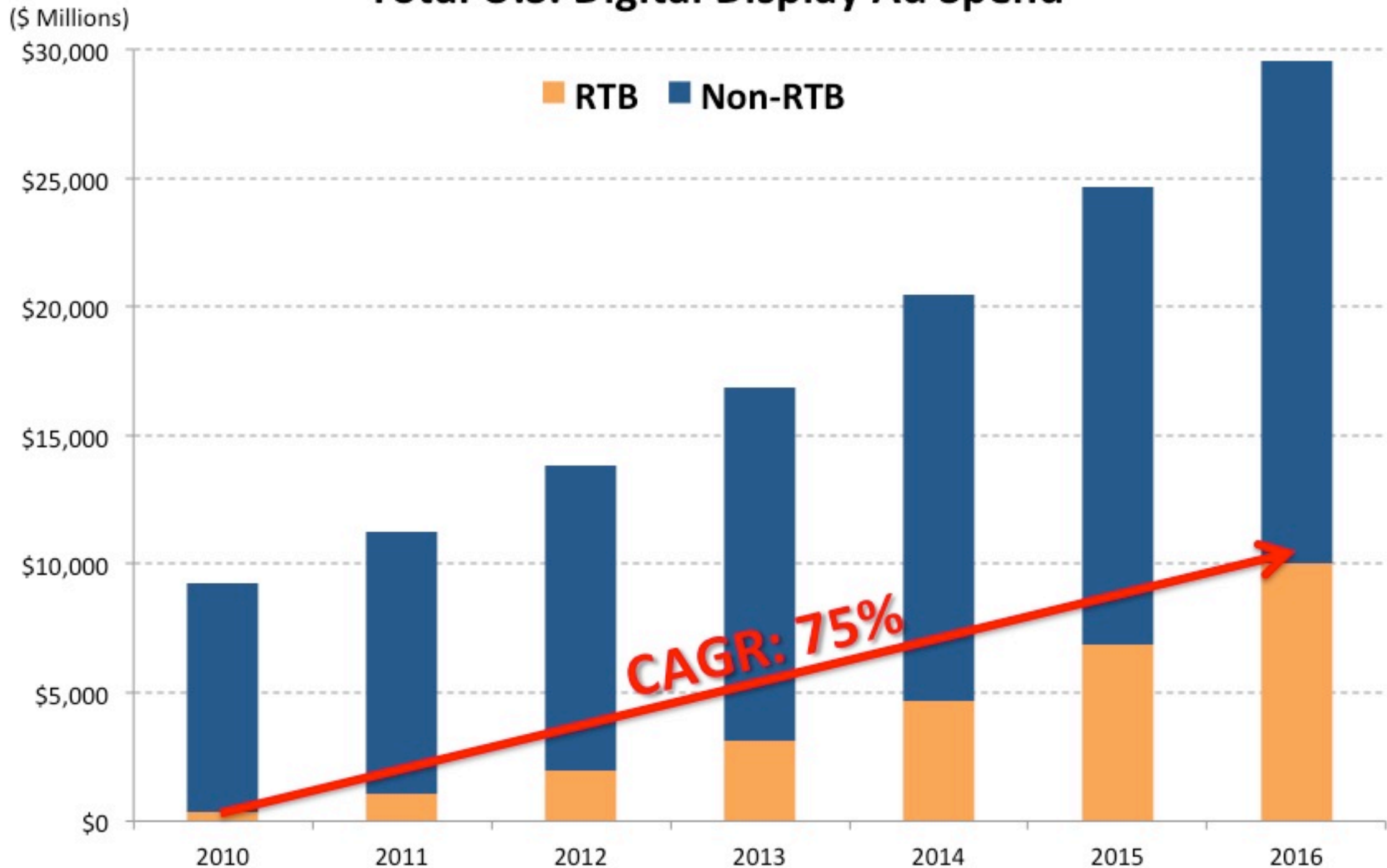
# Color by Numbers:

## A Valuation Framework for the Ad Tech Sector

*January 2014*

# Data-Driven Digital Marketing on the Rise

## Total U.S. Digital Display Ad Spend





# Promising New Entrants & Formats

*Growing  
Giants*

Google

facebook



*New  
Entrants  
& Formats*

You**Tube**

Instagram

Vine

Pinterest

amazon

Linked**in**

imgur

tumblr.

BuzzFeed

# Lack of Consolidation Has Allowed Private Cos to Scale

**TOP  
20  
PRIVATE  
COMPANIES**

manage over  
**\$6bn**  
in media spend

Average  
revenue  
over

**\$300  
MILLION**

**60%**

**MEDIAN  
GROWTH  
RATE**

# Implications for Industry Composition

## Recreation of mid tier of industry has implications

- Increased M&A as companies use their currencies to fill in gaps in technology, channels, geographies, etc.
- Ultimately these companies will consolidate in a Game of Thrones-style battle for customers

## Opening of public markets creates opportunity

- 8 public companies (up from 2 in 2012)
- 12+ companies planning a possible IPO

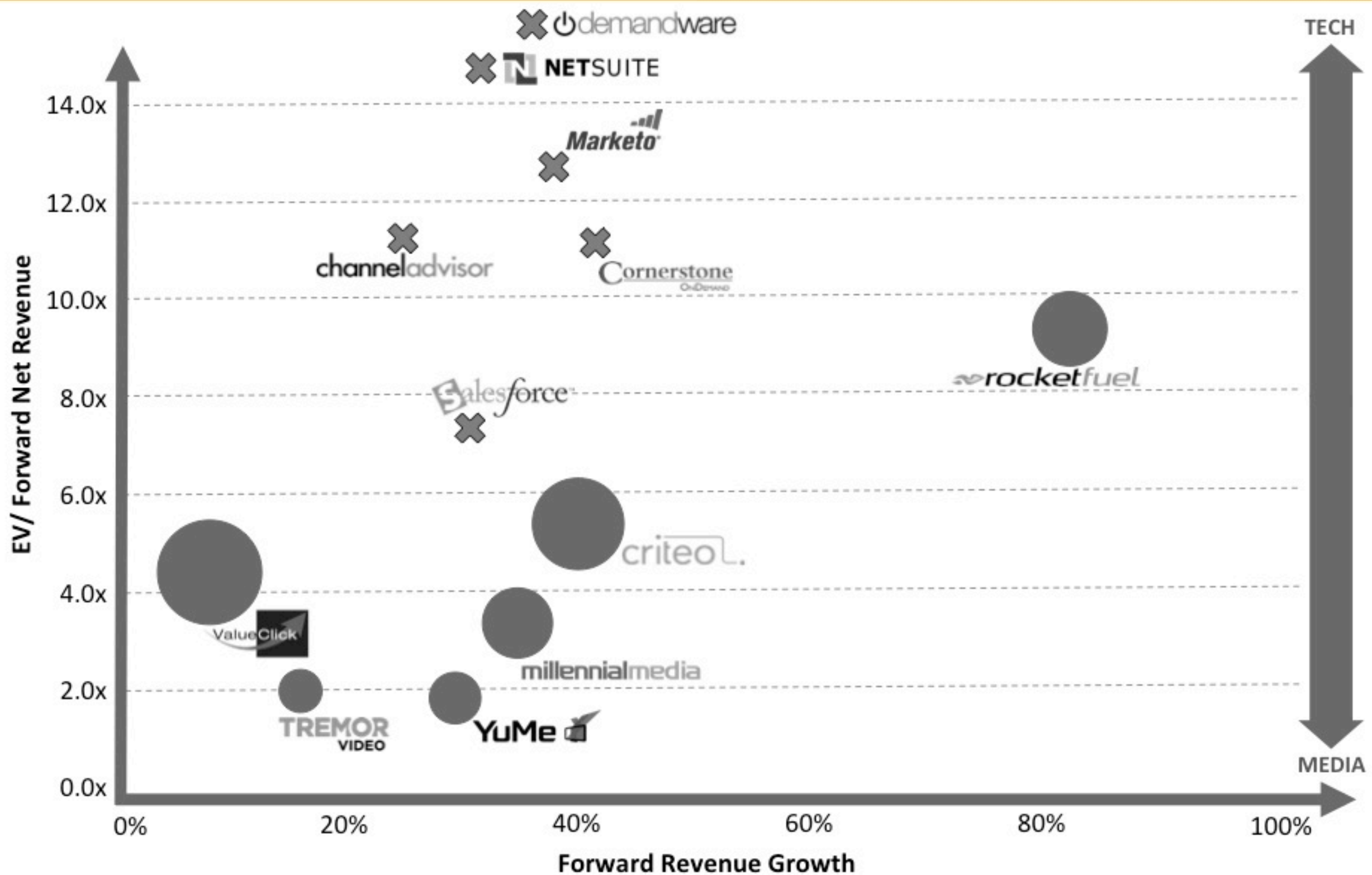
*Prospective IPO candidates have different business models,  
market approaches and customer focuses...  
This creates a need for a valuation framework*



# Ad Tech Valuation Drivers



# Ad Tech Valuation Framework – Public Companies



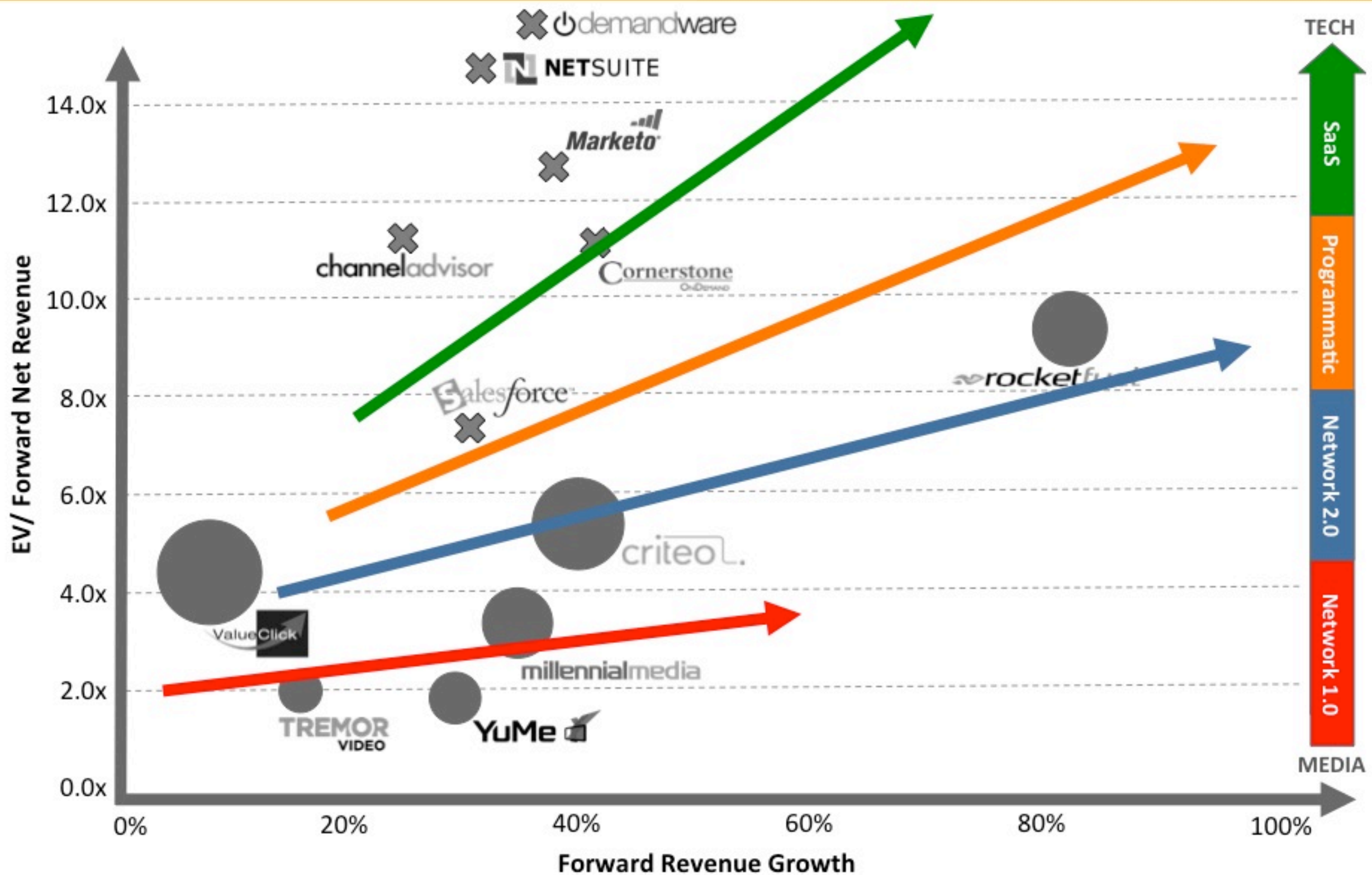


# Ad Tech Valuation Categories

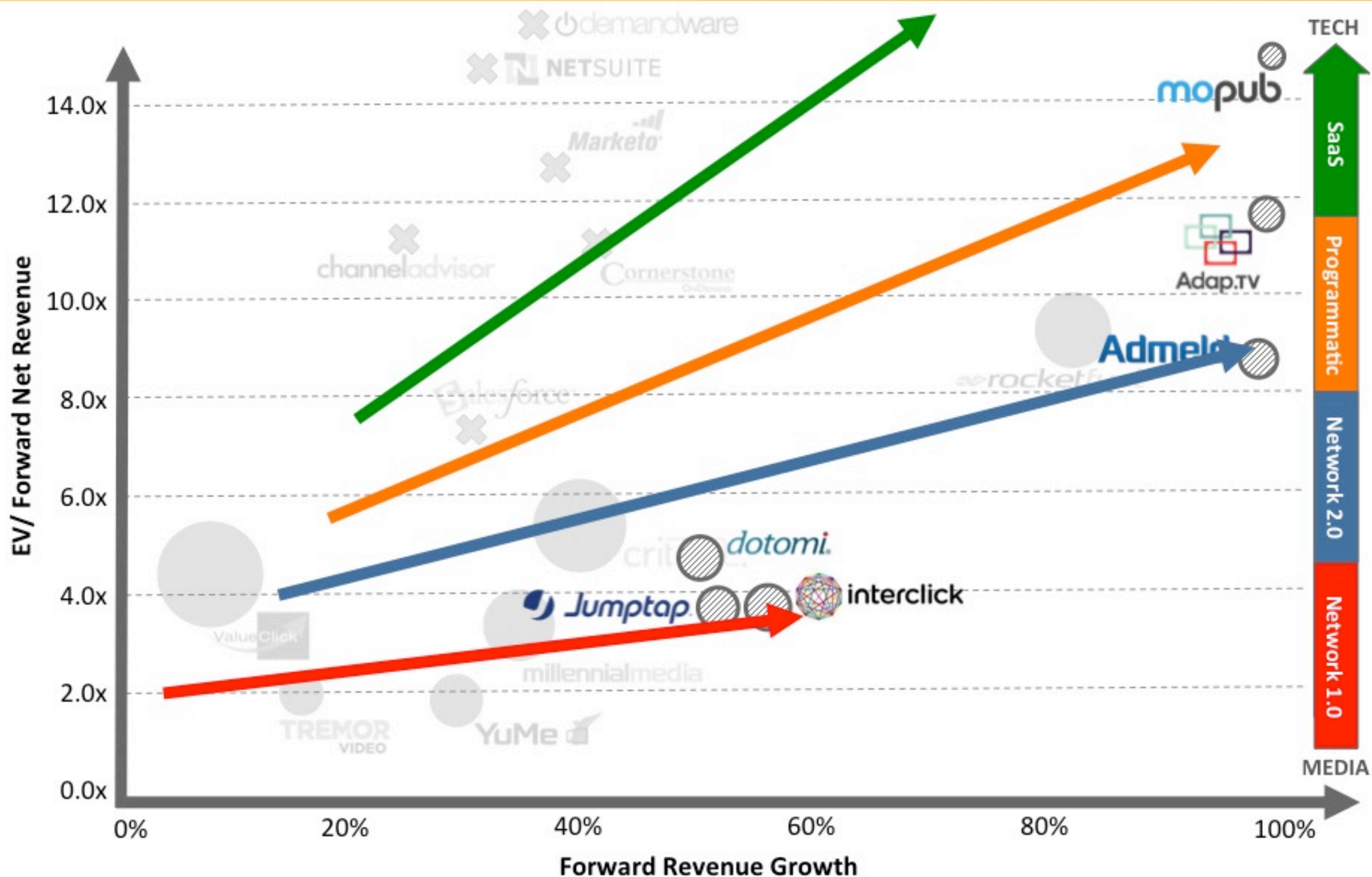
TECH ↑ ↓ MEDIA	Category	Description	Characteristics
	<b>SaaS</b>	<ul style="list-style-type: none"> <li>Contractual platform technology fee on monthly subscription basis</li> <li>Can have usage step functions</li> <li>Business model based on net fees for software license (no media)</li> </ul>	<ul style="list-style-type: none"> <li>Margin on net revenue 70-80%</li> <li>Profitability based on growth</li> </ul>
	<b>Programmatic</b>	<ul style="list-style-type: none"> <li>Transparent intermediation on exchanges</li> <li>Typically RTB-based</li> <li>Business model based on percent of spend, transaction fee or usage license</li> <li>Media is treated as a pass-through</li> <li>Can be offered as a self-service model, as opposed to managed accounts</li> </ul>	<ul style="list-style-type: none"> <li>Margin on media spend 20-25%</li> <li>Margin on net revenue 75-80%</li> <li>Run at breakeven for growth</li> </ul>
	<b>Network 2.0</b>	<ul style="list-style-type: none"> <li>ROI-driven ad sales and fulfillment leveraging audience data</li> <li>Typically I/O-based</li> <li>Business model based on arbitrage of media</li> <li>Utilize proprietary algorithms</li> </ul>	<ul style="list-style-type: none"> <li>Margins 40-60%</li> <li>Profitability based on growth</li> </ul>
	<b>Network 1.0</b>	<ul style="list-style-type: none"> <li>CPM-driven ad sales and fulfillment leveraging audience data</li> <li>Typically I/O-based</li> <li>Business model based on arbitrage of media</li> </ul>	<ul style="list-style-type: none"> <li>Margins 40-60%</li> <li>Profitable at scale</li> </ul>



# Ad Tech Valuation Framework – Public Companies

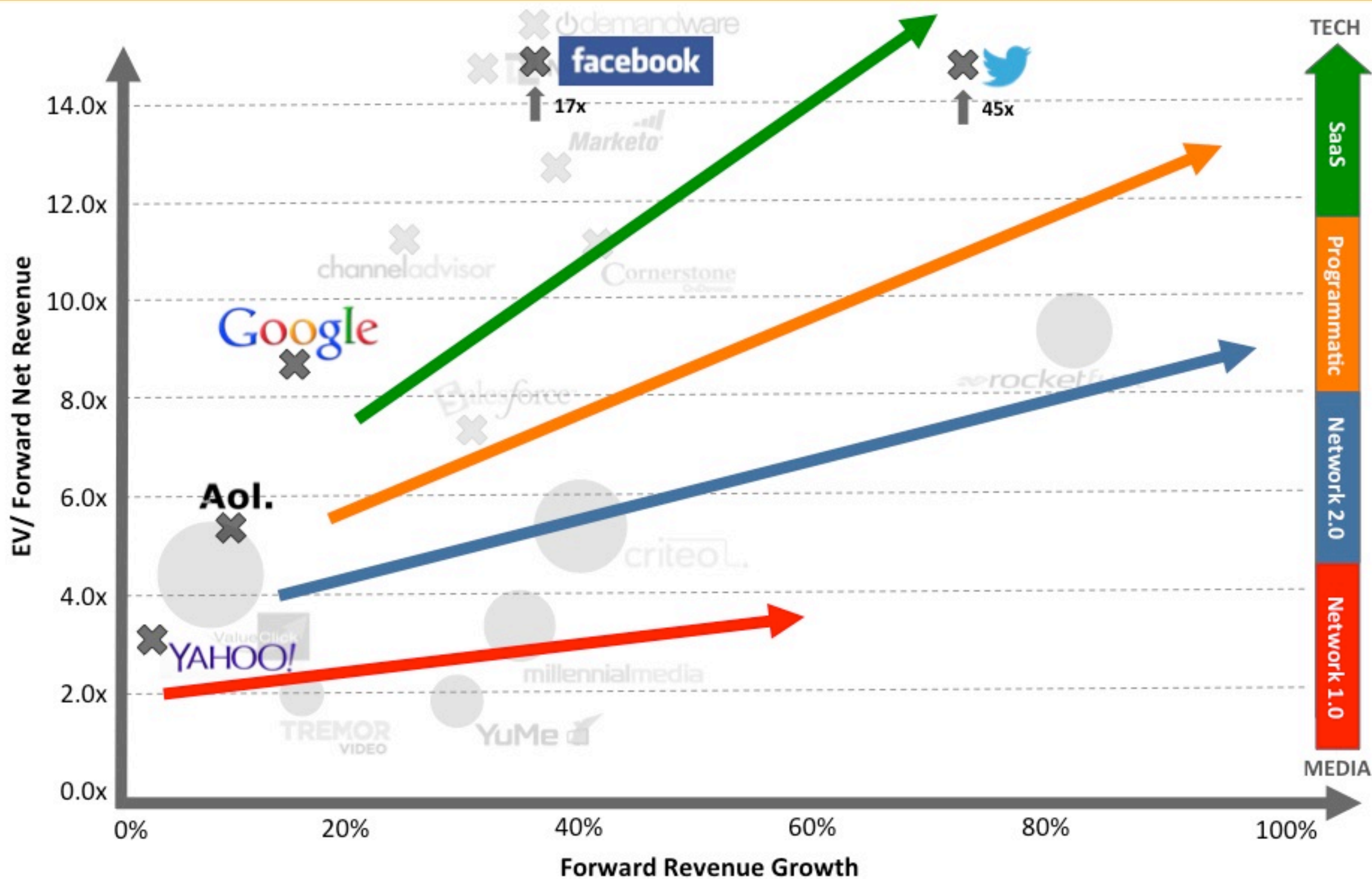


# Ad Tech Valuation Framework – M&A Transactions






# Ad Tech Valuation Framework – B2C Comps







*LUMA Securities, a wholly owned subsidiary of LUMA Partners, acted as co-managing underwriter for Rocket Fuel and may pursue underwriting or other advisory assignments with companies mentioned in this report or in the sector.*



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