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Research and opinion on recent M&A transactions.

Wix Acquires DeviantArt
Walmart Acquires Moosejaw
Blackstone Acquires Cloudreach

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VentureDeal
Wix.com Acquires DeviantArt For $36 Million

Quick Take

Internet hosting services provider [Wix.com](https://www.wix.com) (NASDAQ:WIX) has acquired creative community website DeviantArt for $36 million in cash and assumed liabilities.

DeviantArt is considered to be the largest online artist community and represents an expansion of Wix’s core focus into bringing its technological efficiencies and marketing capabilities to online communities.

Assuming a successful integration of DeviantArt, this deal could act as a template for Wix acquiring other online communities and adding significant value to its operation and growth.

Target Company

West Hollywood, California-based DeviantArt was founded in 2000 by CEO Angelo Sotira and others to provide an online location for artists to publish their art and connect with others in an artistic social network. The company says the site has more than 325 million pieces of original art, over 40 million registered members, and more than 65 million unique visitors per month.

DeviantArt raised at least $13.5 million in two financing rounds from investors including DivX, Emagen Investment Group and corporate investor Autodesk (NASDAQ:ADSK).

Competitors to DeviantArt include the following artist community sites:

- Behance Network
- Etsy (NASDAQ:ETSY)
- PaigeeWorld
- Pixiv
- Our Art Corner

Other competitive sites include niche sites based on the type of artwork created, such as photography, film, music, craft art, written art, etc. DeviantArt is generally considered the largest art site online, though most of its contributors are believed to be "amateur" or aspiring artists.

Other online communities serve professional artists as more of their core focus.

Acquisition Terms, Rationale and Commentary
Wix has acquired DeviantArt for $36 million in cash and also adjusted its 2017 revenue guidance upward by $8 million concurrent with the transaction announcement. Thus, it appears that Wix paid approximately 4.5x forward revenues for the deal.

The company also expects to invest $8 million in DeviantArt for "R&D and marketing, integration costs, employee retention bonus payments and other transaction related expenses." The management intends to bring its ease-of-use technology and marketing expertise to the DeviantArt community platform and continue to operate the business as a standalone entity, with all of its employees remaining at the firm.

With the deal, Wix appears to be expanding its current focus of providing technologies to help users build their own websites to now operating "online collaboration and communities."

If management can successfully monetize the DeviantArt community acquisition by combining Wix's online technologies and marketing knowledge, we can expect Wix to pursue additional acquisitions of online communities in the future.

Many online communities have grown organically over the years and may have deficits in their technology and marketing capabilities. The combination of Wix's capabilities and capacity to invest in upgrading promising communities could mean a whole new business line for the company.

It will take several quarters of financial performance to tell whether the DeviantArt deal can be a template for an expanded strategy.
Walmart Acquires Moosejaw For $51 Million

Quick Take

Retailing giant Walmart Stores (NYSE:WMT) has acquired outdoor apparel retailer Moosejaw for $51 million.

Moosejaw will continue to operate as a standalone entity under the new umbrella e-commerce unit headed by Jet.com's Marc Lore.

The small deal will provide Wal-Mart with additional online expertise that it needs to modernize its operations as it competes with online giant Amazon (NASDAQ:AMZN).

Target Company

Madison Heights, Michigan-based Moosejaw was founded in 1992 by Robert Wolfe and David Jaffe.

The 350-employee company operates an online active outdoor retail site and ten physical stores that combined sell more than 400 brands including upscale brands Arc'teryx, The North Face, Marmot and Patagonia.

Management is headed by CEO Eoin Comerford, who has been with the firm since November 2008 when he joined as SVP Marketing & Technology.

Moosejaw underwent a digital makeover in 2015 as it revamped its website to be more responsive to various devices accessing it.

After the update, it noted a 31% increase in average expenditure per customer.

With its focus on active outdoor apparel, Moosejaw's customer base has skewed toward a younger demographic and the company has invested in a variety of initiatives designed to appeal to younger consumers.

Direct competitors for outdoor apparel retailers include:

- REI
- Huckberry
- Bass Pro Shop
- Camping World (NYSE:CWH)
There are numerous other small, regional physical store retailers, but not many with a significant online focus.

Indirect competitors include major e-commerce sites such as Amazon and Target (NYSE:TGT).

**Acquisition Terms, Rationale and Commentary**

The acquisition was announced by Wal-Mart for 'approximately $51 million' and closed on February 13, 2017.

Moosejaw will continue to operate as a standalone entity, as a complementary brand to Wal-Mart's other e-commerce sites and will become part of its growing e-commerce retail group under Marc Lore, who came to Wal-Mart via its high profile acquisition of Jet.com.

The deal for Moosejaw will provide Wal-Mart with additional expertise selling to a younger demographic and via online, which Moosejaw has excelled.

In addition, Moosejaw will provide established relationships with upscale apparel makers such as Patagonia and The North Face who will have the opportunity to expand their reach through Jet.com and Wal-Mart's other e-commerce properties.

In a company **statement**, Wal-Mart cited a recent comScore assertion that 'apparel and accessories is now the number one category for digital commerce' as justification for the acquisition.

The deal also presents Wal-Mart with expertise in combining a major digital focus with offline, physical stores.

Creating the right mix of inventory management, marketing and logistics between online and offline location is not an easy thing to get right, so Moosejaw may be able to add value to Walmart's operations in that respect.

I expect to see additional acquisitions by Wal-Mart's e-commerce unit to build out its portfolio and leverage those smaller acquisitions with Wal-Mart's ability to scale operations and drive down costs.
Blackstone Acquires Cloudreach For Access To IPaaS Market

Quick Take

Publicly-held private equity firm Blackstone (NYSE:BX) has acquired a majority interest in cloud adoption technology company Cloudreach for an undisclosed amount.

Cloudreach is an integration service provider in the quickly growing segment of integration Platform as a Service, or iPaaS.

Blackstone is making the right moves in gaining a foothold in this sought-after market as many middle market and large enterprise are transitioning to the cloud.

Target Company

London-based Cloudreach was founded in 2009 by co-founder Pontus Noren to help enterprises with legacy on-premises systems transition into the cloud.

The company has developed two in-house systems:

- Sceptre - infrastructure automation suite for AWS
- Connect - integration Platform as a Service, iPaaS

Notable partners for the company include Amazon Web Services (NASDAQ:AMZN), Microsoft Azure (NASDAQ:MSFT) and Salesforce (NYSE:CRM).

Cloudreach is essentially an advisor and integrator to enterprises with greater than $1 billion in revenues that wish to move some or all of their IT functions to public cloud environments.

Below is a brief explainer video of Cloudreach in the context of its AWS integration:

(Source: Amazon Web Services)

Major investors in the company are unknown, so it is probable the firm was bootstrapped by its founders to this point.

Acquisition Terms, Rationale and Commentary

The companies did not disclose a purchase price for the deal, nor were there 'whisper' numbers in the tech press. Cloudreach has between 50 and 100 employees located in seven offices in Europe and North America.
Cloudreach CEO Pontus Noren said the 'investment by Blackstone will allow us to continue to expand our geographic reach, our software development capabilities, and further automate and expand our managed services/cloud operations capabilities.'

Dave Johnson, Senior Advisor to Blackstone said, "We are entering into this industry at a key inflection point and will seek to make additional investments to accelerate and expand Cloudreach's capabilities." The integration Platform as a Service, iPaaS, market is rapidly growing since it assists enterprises in their efficient transition from legacy, non-connected environments to cloud-based connected systems.

Research firm Markets and Markets has forecast that the iPaaS market will grow an astounding 41.5% CAGR to reach $3 billion in 2021.

Key drivers of growth include the need for enterprises to integrate mobile app capabilities with proliferating API publishing resources and the growth in demand for the Internet of Things, or IoT, functionalities as more real-world 'things' connect to the Internet.

The integration market has a variety of players, such as application designers, systems integrators, cloud vendor, network service providers and development service providers.

Competition for the firm's service includes a large number of firms including:

- IBM (NYSE:IBM)
- SAP (NYSE:SAP)
- Apigee (NASDAQ:GOOG) (NASDAQ:GOOGL)
- Oracle (NASDAQ:ORCL)
- Microsoft (MSFT)
- Red Hat (NYSE:RHT)
- Scribe Software
- Jitterbit
- Dell Boomi
- SnapLogic
- MuleSoft (Private:MULE)

For example, iPaaS system developer MuleSoft provides a robust platform for bringing disparate services together, although it appears to be more technologically focused on integrating APIs and other online services and less focused on integration services with cloud environments like Cloudreach.

But, in my recent article on MuleSoft's IPO prospects, MuleSoft Seeks $100 million IPO For App Integration Platform, the amount of industry growth available to significant players is tremendous.
MuleSoft is indicating 71% topline revenue growth, with revenues reaching $187 million in 2016. So, the opportunity for companies like Cloudreach, when combined with financial resources to expand their reach and service platform, is tremendous.

The sheer volume of middle market and large enterprises transitioning their IT operations to the cloud is a once-in-a-lifetime opportunity for integration providers like Cloudreach.

Further, the opportunities to assist in advising and managing new service categories such as AI, machine learning and IoT functions present additional, attractive growth potential.

I expect Blackstone to invest in Cloudreach, or potentially combine it with other acquisition(s) to greatly accelerate its development and capabilities, since BX doesn't like to hold onto its winners any longer than it has to.

Capital return and recycling is the name of the game for Blackstone's stock price, and its cloud services dealmakers appear to be making the right initial moves.