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NYSE: ECOM
01/21/2022
SOFTWARE - ECOMMERCE

channeladvisor®

INVESTMENT SUMMARY

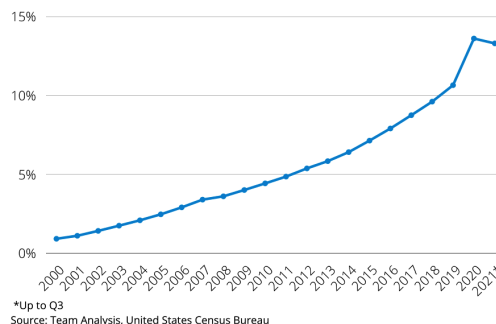
ECOM is a Software as a Service (SaaS) company that offers brands and retailers a wide range of services: digital marketing, marketplaces, brand analytics, logistic support, first-party solutions and shoppable media (Appendix A), catering to the end-to-end requirements of a business's e-commerce journey.

We issue a BUY rating for ECOM with a one-year target price of US\$26.65, offering a 31% upside to its closing price of US\$20.32 as of January 21st, 2022. The price is based on discounted cash flow and comparative company valuation. Our valuations lays on the following key catalysts: (1) Growth of e-commerce in the U.S. and globally greater than 13%. (2) Focus on building brands as a larger client base and (3) Developing and maintaining a competitive advantage in their product offering through technology moat.

Recommendation	BUY
Current Price	US\$20.32
Target Price	US\$26.65

Figure 1

E-commerce as a percent of total estimated U.S. Retail sales



GROWING OF E-COMMERCE

The retail business has shown a tendency where the e-commerce has been taking more and more of the total sales in the U.S. In 2000 the e-commerce represented roughly 1% of total estimated U.S. retail sales and in 2020 was 13.6% (Figure 1). Until the end of the third quarter of 2021 it already represented the 13.3%. We believe that e-commerce will not diminish and that will continue to increase but probably at a lower rate after COVID-19 considering that costumers now have acquire a new habit of buying online but they are able again to go shopping on brick and mortar stores. We believe this trend will be reflected in 15% and 13% of forecasted growth in 2021 and 2022 respectively for ECOM.

BUILDING BRANDS AS A LARGER CLIENT BASE

Brands are and for the near future will be the center of attention for ECOM's growth strategy, which we feel is a direction where the company can achieve tremendous growth. Having brands at the center of ECOM's business is a great way to leverage their offerings and strengths in the industry which can be observed from more than 100% retention rate and brand subscription revenue share has doubled in the past five years. The reason is, brands are more open to taking on a suite of products and offerings due to their higher spend potential and risk-taking abilities to experiment with products and channels*. Additionally, brands, especially the ones with a global footprint would benefit from such offerings which would allow them to cater to customers in multiple geographies using one solution provider. This not only is a point of convenience but also allows brands to focus more on other segments of their businesses. Working with brands also provides them with the potential to tap into a much larger market share of products being sold on e-commerce platforms. Brands are driving Annual Recurring Revenue growth by 49% YoY (Figure 2). Brands now contribute almost half of the subscription revenue (Figure 3).

Figure 2: Annual Recurring Revenue Growth

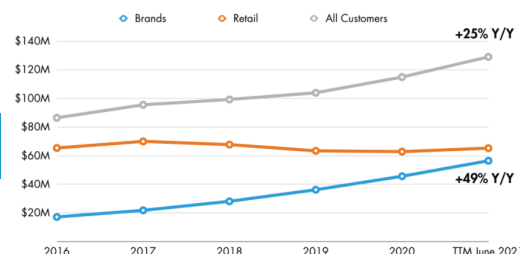
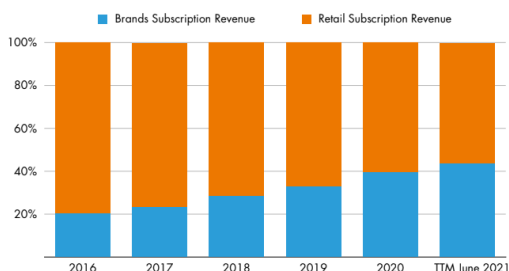


Figure 3



PRODUCT OFFERINGS AND DEVELOPMENT

ECOM has managed to build a very unique and integrated product platform, which allows its customers to onboard any of its wide variety of services when they need it, thanks to the integration of their services into one platform. Additionally, with their integrated multichannel offerings on their platforms, clients can easily transition products from one channel to another, making the process of selling on newer channels easier**. Furthermore, ECOM continues to invest and develop parts of their products to further optimize their platform, with more features and abilities. These continuous developments help ECOM to stay competitive in this business space with competitors such as Shopify, Big Commerce, Amazon, Ebay and Alibaba. Their most recent focus has been in the fields of Marketplaces, Analytics, Commerce Network, Digital Marketing among others.

*Channel Advisor Analyst Call September 2021

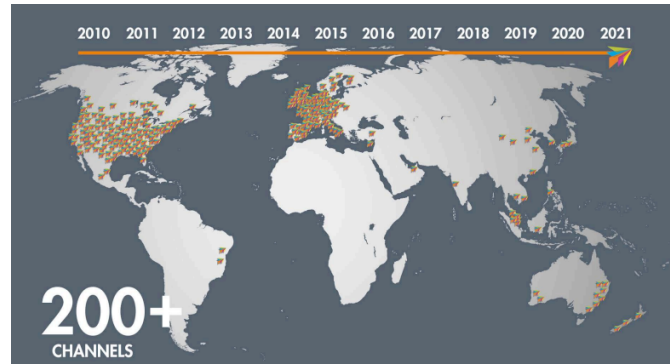
**Success Stories: "Just being able to use ChannelAdvisor's platform to help us with the Amazon integration to pull in orders and sales helped us grow quickly," Kyle Boucher, Senior Manager, Demand Generation, ASICS."

ECOM Corp. is an e-commerce SaaS company based in Morrisville, North Carolina, United States. ECOM has been providing e-commerce related services to retailers and brands since 2001. Services include Digital Marketing, Shoppable Media, wide panel of Market-Place offerings, First Party Solutions, Fulfillment Solutions and Brand Analytics. The company has approximately 800 employees and has been in business for over 20 years. With a wide variety of solution offerings on many channels, ECOM can serve clients all around the globe with more than 200 channels, with their e-commerce needs like digital marketing, multi-channel support for fulfillment, inventory management, analytics, and first party solutions. ECOM reported US\$145 million in total revenue in 2020, with a record 39% first half YoY growth observed in 2021.

BUSINESS SEGMENTS

The company's business segments cater to different verticals of e-commerce businesses. But the range of services and products offered by them puts them in a very competitive positioning. They focus on working more with brands which have observed a 24% CAGR over the last 5 years. Brands now contribute almost 48% of the total revenue generated by the company and have accelerated ARR by 49%. The company's product and service line is positioned to work well with brands who have the option to select from a large suite of services and giving them access to over 200 channels in 5 continents (Figure 4)

Figure 4



PRODUCTS HIGHLIGHTS

ECOM marketplaces centralizes marketplace integration, automate tasks, and optimize performance. It helps organizations in scaling, saving time, compliance, increased product visibility and identify opportunities.

- *Digital Marketing*, helping and assisting brands and retailers in growing their revenue, customer acquisitions and achieving return on ad spend goals.
- *Shoppable media* allows clients to keep interested customers on path to purchase from the channel of choice.
- *First party solutions* provides client with the ability to incorporate multiple solutions to have a more resilient fulfillment operation.
- *Brand analytics* solutions for brands from sales, growth, reputation management on online platforms.

HOW IT WORKS?

Taking a hypothetical example of a shoe manufacturing and designing brand, let us call it Shoes Inc. Let us assume that Shoes Inc. is a major sports shoe manufacturer with a global presence in 4 continents, namely, North America, Europe, Asia, and Australia. Now, Shoes Inc. is planning to onboard their products onto major eCommerce platforms across 4 of their biggest markets in each continent in an attempt to initiate Direct to customer avenue of sales digitally. For this, Shoes Inc. approaches ChannelAdvisor for help. Shoes Inc. has a basic list of requirements which it expects ChannelAdvisor to assist them with, the requirements and solutions provided by ECOM are expressed in Table 1.

Table 1: ECOM Solutions

Company Requirement	ECOM Solution
Best places to sell based on the geography of clients	Multichannel ECOM has over 200 channel partners in over 5 continents. Using their wide network and expertise, they can advise Shoes Inc. in selecting the right channels for their products and geographies.
List all their products on all the websites	First Party Solutions ECOM makes it easy for Shoes Inc to onboard products onto channels (webpages, Amazon, Walmart, Zalando, Rakuten) by allowing them to add products with a couple clicks onto channels using their platform.
Find the best way to reach the desired customers	Digital Marketing ECOM has experts, analytics, and tools to assist Shoes Inc in reaching customers based on their requirements (Return on ad spend - ROAS) and assessment of the target market (age, gender, etc.)
Manage inventory and delivery to clients	Fulfillment ECOM makes it easy for Shoes Inc to manage inventory and fulfillment from their platform by giving them updates on inventory and options for fulfillment based on geography. Walmart Fulfillment (USA), Zalando Fulfillment (Germany), UPS, FedEx, etc
Measure the performance of the sales online	Brand Analytics ECOM Brand Analytics enables brands like Shoes Inc to monitor and react to analytics presented on their performance metrics like Dynamic pricing, reputation management, content management, and review management.

COMPANY STRATEGY

The company's corporate strategy is to maintain its position as a leader in omnichannel solutions for retailers, while focusing on aggressive growth in providing solutions for brands. The company is investing heavily to support and develop solutions and products to support brand-based solutions which can further strengthen their brand client portfolio which the company foresees as a major proportion of their revenue in the future. Investments in R&D is almost 14% of the revenue to develop and improve technology (Figure 5). Also, efforts to onboard more channels globally is being undertaken by the company to support global brands leverage their tools and services.

INDUSTRY OVERVIEW AND COMPETITIVE POSITION

The number of digital buyers keep climbing every year as the adoption and access of internet are rapidly increasing worldwide. In 2020, over two billion people purchased goods or services online, and during the same year, e-retail sales surpassed 4.2 trillion U.S. dollars worldwide (Figure 6). During the pandemic, global retail e-commerce sales grew by more than 27.6%. The convenience that e-commerce provides has led to changes in consumer behavior, thus reflecting to stronger demand for online shopping. Mobile is boosting the e-commerce traffic. In 2021, smartphones accounted for almost 70 percent of all retail website visits worldwide, although desktop and tablet visits generated higher conversion rates in 2020. The competitive position is based on: Geographical and business expansion and customer retention, focus on brand and COVID-19 impact. Further information in Appendix D: SWOT Analysis.

GEOGRAPHICAL AND BUSINESS EXPANSION AND CUSTOMER RETENTION

With presence in 47 countries, the company currently supports nearly 200 channels including all major channels such as Amazon, Zalando, Target Plus, Shopify, eBay, and Walmart. In the beginning of 2021, the intent was to add at-least 80 new integrations in the next 18 months and by September 2021, the company has already integrated with 54 channels. Thus, the customer has access to broadening spectrum and diversification of channels to increase visibility of their products, reach more customers and eventually increase sales. The subscription dollar net revenue retention which is the recurring revenue generated from the existing customers for TTM June 2021 was > 100% which conveys the trust the customer has on ECOM for the sales of their products (Figure 7).

FOCUS ON BRANDS

ECOM has increased its focus on increasing the customer base to work directly with brands as shown in Figure 8. Brands are more stable, less financially leveraged and have higher margins compared to retailers. Due to these reasons brands are driving the accelerating ARR at a rate of 49% Y/Y since 2016.

Figure 8

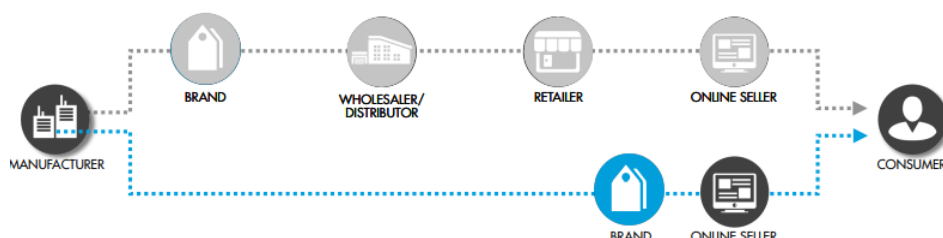


Figure 5

R&D as a percent of revenue
*Up to Q3 2021

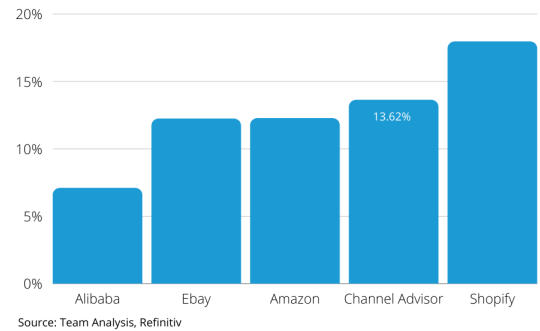


Figure 6

Retails e-commerce sales worldwide
(in billions U.S dollars)

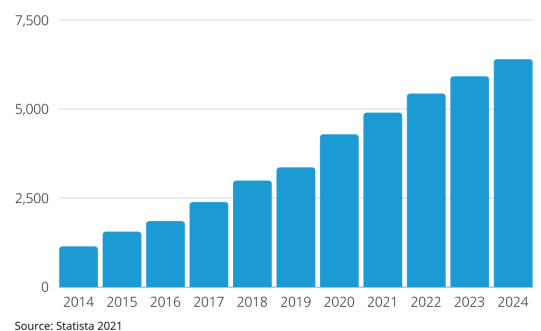
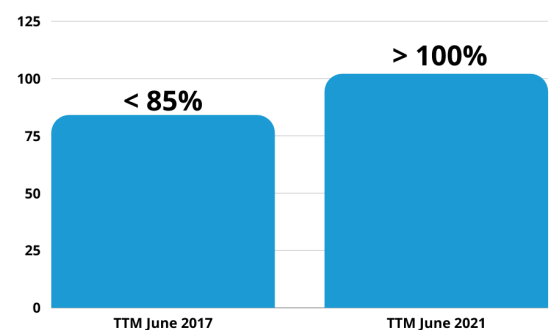


Figure 7

Subscription Dollar Net Revenue Retention



COVID IMPACT

The coronavirus (COVID-19) pandemic continues to have a significant influence on e-commerce and online consumer behavior around the world. Most people stayed home longer to contain the spread of the virus, digital channels have become the most popular alternative to crowded stores and in-person shopping. In June 2020, global retail e-commerce traffic stood at a record 22 billion monthly visits (Figure 9), with demand being exceptionally high for everyday items such as groceries, clothing, but also retail tech items. This tendency is beneficial for ECOM because the consumer preferences changed and it provides stability and growth on this market.

FINANCIAL ANALYSIS

INCREASING REVENUE

Last two years have been significant for ECOM. It has turned a corner and its revenue is looking upwards with an increase in gross merchandise values sold. By Q3 2021 the revenues had increased 17% YoY and its EBITDA 7% YoY, showing a well managed growth. The pandemic has led to a boom in online purchase of goods and services (Figure 10). This has increased the gross merchandise value sold online and in turn improved profitability of e-commerce companies. Following the trend the company changed its strategy with a focus on Big Brands because they have an advantage over small businesses as: 1) they are more willing to take risks in terms of marketing 2) they create more revenue than small costumers and, 3) they represent less cost for the company due to the scale economies.

ECOM's profitability has been on an upward trend in the last 5 years. The net operating income has increased from US\$(16.58) million in 2017 to US\$(7.51) million in 2018, to US\$4.94 million in 2019 and then to US\$18.92 million in 2020 (Figure 11). This factor seems to have impacted all the companies in the industry, with Shopify and BigCommerce also improving their Net Operating Income drastically. In comparison Channel Advisor has been more gradual and consistent in terms of growth (Figure 12).

Another factor has been the acquisition that it undertook in 2020. With the acquisition of BlueBoard, ECOM has added another service, ChannelAdvisor Brand Analytics. This service helps multichannel brands to manage online distribution, brands product content, reviews and search performance. It further enhances ECOM's enterprise offerings which helps brands solve their multichannel market base, digital marketing, direct-to -customer, first party retail, drop ship and fulfillment needs from a single platform. This will strengthen the strategy laid out in the analyst call to pursue brands as a wider client base.

Therefore, we expect the revenue to increase at a rate close to the rate at which the industry is expanding. So, in 2021 it is projected to grow at 15%. From there on till 2025, we expect a gradual decline in growth in revenue. We take these revenues to be declining at a constant rate of 2%.

COSTS AND EXPENSES

With increasing revenue and scale, we expect the cost of revenue to increase at a rate of 2% per annum. By these estimate the cost of revenue will reach 30% by 2025. Historically, cost of revenue has been low, but as ECOM enters a phase of high growth, the cost of revenue is bound to increase.

For the expenses, we estimated the Research and Development and General And Administrative expenses to follow an upward trend, while looking at the lower cost in Selling expense that focus on big brands is to offer, we cut down the Marketing Expense. Overall as a share, Marketing expense remains the largest chunk of expense incurred by the company.

FIGURE 9

Coronavirus impact on retail e-commerce website traffic worldwide as of June 2020, by average monthly visits

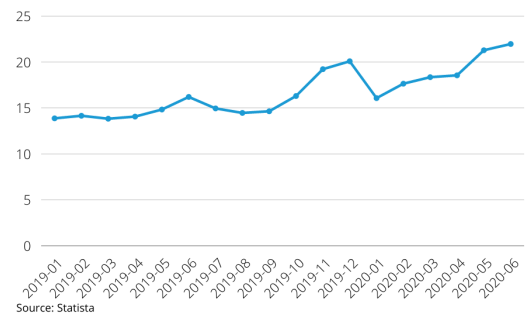


Figure 10

Total Revenue and Revenue Forecast (in millions U.S dollars)

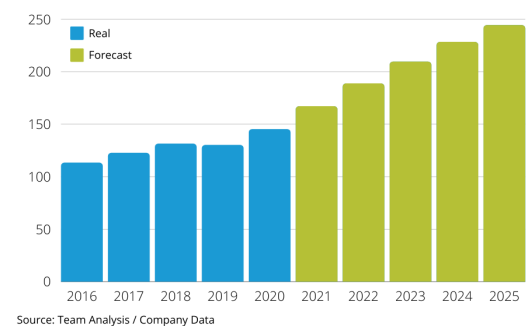


Figure 11

Gross Profit/Net Income (Y-o-Y) (in millions U.S dollars)

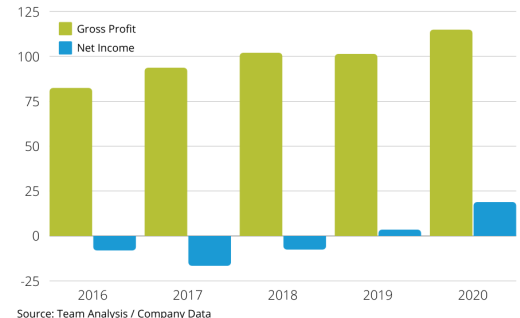
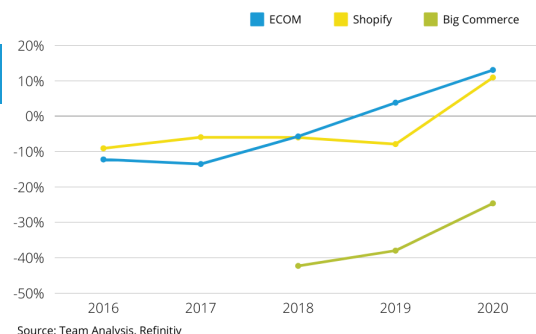


Figure 12

Net operating income comparison



The depreciation and amortization is largely driven by depreciation cost, which has been moving at a constant rate. This has led us to believe that the depreciation for 2021 would be about \$6.5 million.

Based on these revenue projections, we estimated the cost of revenue based on the historical ratio of cost of revenue to revenue in 20% this translate in a margin that is already very high at 80% therefore a long term 80% margin seems reasonable.

BALANCE SHEET

The total assets of the company at the end of Q3 2021 were US\$206.9 millions, and the liabilities were only 28% of the assets US\$56 millions (Figure 13). The current assets are \$137.5 million and cash and cash equivalents are the bulk of this account with \$97.02 million, with a high expected subscription retention and newer brands being pulled in, this account is expected to grow. The net receivables of \$24.24 million are relatively stables, historically they have been able to collect without major issues, the receivable collection days are below 60 days. Other Current Assets are \$15.23 million. The liquidity at the end of Q3 2021 was 2.63, and it is projected to remain high. The company established a \$25 million revolving credit facility in case is required for working capital. The Non-Current Assets were \$69.39 millions, primarily includes Goodwill, which makes up about 44% of the total non-current assets which increased after the acquisition of BlueBoard in 2020. Goodwill would be amortized at a fixed rate of 2%. The Property, Plant and Equipment (PPE) is about 19% of the total non-current

VALUATION

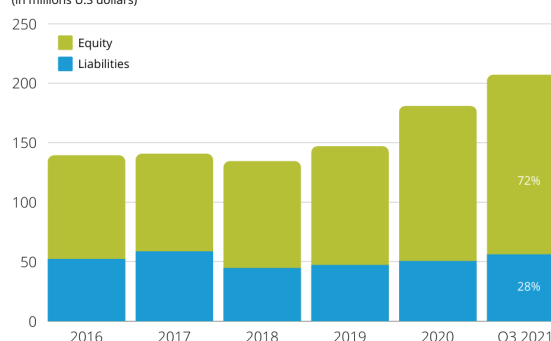
We initiate with a BUY recommendation for ChannelAdvisor with a 12-month target price of US\$ 26.65, presenting a 31% upside potential on the closing price of US\$ 20.32 on January 21st 2022 (Figure 14). In order to incorporate premiums gained from brand focus, growth of e-commerce in the US and globally, and wider product offerings and development, we conducted a DCF analysis. To confirm the robustness of our DCF and to incorporate the investment risks outlined in the next section, we performed a sensitivity analysis and scenario analysis. Our analysis is complemented with a relative valuation, which verifies our buy recommendation.

DISCOUNTED CASH FLOW VALUATION

Our DCF valuation uses the FCFF methodology to arrive at the intrinsic value of the company. This model incorporates ChannelAdvisor's innovative and strategic business model, which allows us to account for the high future growth prospects that the company faces. We analyze ChannelAdvisor's forecast period from 2021 - 2025 (Figure 15).

Figure 13

Asset as Liabilities and Equity
(in millions U.S dollars)



Source: Team Analysis / Company Data

asset which is low because the fact they're a SaaS company; with pandemic coming in and work from home becoming a norm, PPE cost will stagnate in the medium term, offsetting the increase one expects given the expectation of its revenues.

On the liability side, it is mostly concentrated in current liabilities with \$52 million and with zero short-debt, the 54% of the current liabilities are deferred revenue and OCL; the deferred revenue is based on the subscription model of the company. The company's subscription fees collected are added in the cash assets and a counter entry into the current liabilities is made since the company has to provide service worth the subscription creating the deferred revenue. The long term liabilities also remain low, the company has a long term operating lease for \$1.69 million (office facilities and certain equipment), and other non-current liabilities for \$2.03 million.

Figure 14

DCF-VALUATION

Enterprise value ("EV")	839,865
Less: Total Debt	600
Plus: Cash and Cash Equi.	150
Net Debt negative number equals net cash position	450
Equity Value market cap	839,415
Outstanding Shares	31,500
Price Per Share	26.65

WACC

For evaluating discounting factor in the DCF, we use Weighted Average Cost of Capital. For this we use the total debt, total market cap, tax rate, market risk premium based on CAPM,, credit risk premium and projected inflation rate.

Table 2: Scenario Analysis

Bear	Base	Bull
Our bear case scenario assumed ECOM subceed its projected growth, with possible single-digit growth potential with an EBITDA margin of more than 13%. We assume that the inflation, in this case, has risen to a sharp 7% per annum and there's no major advantage being received from the impact of covid either due to normalcy of consumer behavior or distressed economy with low spending levels. Our target price, in this case, is \$18.32	Our base case scenario assumed ECOM at par with its projected growth, with a possible growth potential of around 15% with an EBITDA margin of more than 20%. We take the inflation as 4.75% as per current macroeconomic scenarios with some premium being offered from advantages of changes in consumer behavior changes impacted due to covid 19. Our target price, in this case, is \$26.65	Our bull case scenario assumed ECOM exceeds its projected growth, with a possible growth potential of approximately 20% with an EBITDA margin of more than 30%. We take inflation as a national target of 2% per annum and some advantage to the company due to long-term consumer habit changes causing a sustainable eCommerce push. Our target price, in this case, is \$33.51

Figure 15: Discounted Cash Flow

	ACTUAL				FORECAST				
	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Net Sales	122,500	131,200	129,900	145,100	166,865	188,557	209,299	228,136	244,105
Growth, %		7.1%	-1.0%	11.7%	15.0%	13.0%	11.0%	9.0%	7.0%
GROSS PROFIT	96,653	101,706	100,906	114,745	130,155	143,304	154,881	164,258	170,874
TOTAL COSTS	138,848	138,494	126,144	125,989	136,213	147,075	163,253	180,227	195,284
EBITDA	-9,770	-1,200	10,092	31,651	43,252	53,705	58,534	60,524	61,412
Margin, %	-8.0%	-0.9%	7.8%	21.8%	25.9%	28.5%	28.0%	26.5%	25.2%
Depreciation	-6,578	-6,094	-6,336	-12,540	-12,600	-12,222	-12,488	-12,616	-12,591
EBIT	-16,348	-7,294	3,756	19,111	30,652	41,483	46,046	47,908	48,821
Tax	-284	-614	-689	-443	-600	-700	-800	-900	-1,000
Capex	-4,203	-7,224	-15,054	-2,636	-2,152	-2,195	-2,239	-2,284	-2,329
Net Working Capital	45,862	41,139	47,946	67,110	92,828	106,752	122,765	141,180	162,357
UNLEVERED FREE CASH FLOW		-13,761	1,156	47,736	66,218	64,734	71,508	75,755	79,259
PRESENT VALUE OF FREE CASH FLOW					66,218	58,248	57,897	55,191	51,958

Channel Advisor has a very small Debt-to-Equity ratio at about 0.01. Due to this the cost of capital weighs the interest rate very low and is virtually just the equity premium. Secondly, because of this reason we don't add a credit risk premium since credit risk is almost negligible based on low debt, high cash balance sheet.

So we focus on the market risk premium. We know it is the product of Beta of the stock and the Excess Market return over the risk free rate. Due to this, we get a market risk premium of about 8.3% assuming a market return of 8.3% and a risk free rate of 1.5%. The inflation rate assumed for discounting is 4%. The inflation y-o-y for year ending 2021 was 4.75, we expect this to moderate in near future in a high inflation environment. With a risk free rate of 1.5% the weighted average cost of capital in our base case comes to about 11.3%

SENSITIVITY ANALYSIS

The sensitivity analysis was conducted to assess the impact of change in key input such as WACC, revenue projection, COGS/Revenue, and growth on our valuations.

Figure 16

Company	Market Data			Financial Data			Valuations		
	Price (\$/share)	Market Cap (\$M)	EV (\$M)	EBITDA (\$M)	EBIT (\$M)	Earnings (\$M)	EV/EBITDA x	EV/EBIT x	P/E x
Ebay	66.5	40,620	36,150	3,942	3,466	1,586	9.2x	10.4x	25.6x
Alibaba	118.79	321,670	295,400	19,991	12,015	8,573	14.8x	24.6x	37.5x
Amazon	3,334	1,735,000	1,780,000	64,894	30,365	22,957	27.4x	58.6x	75.6x
Average							17.1x	31.2x	46.2x
Channel Advisor							23.50	30.36	44.11

The current stock price is 20.32 and as per the sensitivity valuations shown below, we can see that in extreme conditions the price of the stock will be less than the current price. Considering the current situation of covid and the change in consumer behavior for online shopping, these extreme conditions are highly unlikely. Hence, we believe that ECOM will grow at an average growth rate of 10% for the next 5 years and hence we believe that ECOM is currently undervalued.

RELATIVE VALUATION

To be certain with respect to our recommendations, we further conducted price multiple analysis using comparable companies. We calculated EV/EBITDA, EV/EBIT and P/E ratios and the price obtained through these ratios are \$23.5, \$30.36, and \$44.11 respectively. The high P/E value of \$44.11 obtained is due to the high P/E ratio of Amazon. The price obtained through these multiples are higher than our current market price which is \$20.32(as of 21st January 2022). Thus, our price multiple analysis supports our buy recommendation.

Operational Risk

O1. Technology Risk - The competition in the space in the past few years has led to considerable investments into new technology development by peer companies. Rolling out new technologies regularly puts the company at risk of lagging behind which could be a downside for investors.

Mitigation: To stay ahead of the competition and to stay relevant in the industry, the company would be required to spend on R&D and be able to develop valuable and useful technologies. ECOM has been able to stay in the space by investing in R&D and improving the products that clients are using, which can be seen in the ARR growth of 24% YoY in the last 5 years.

Probability: Moderate, Impact: Minor

O2. Execution Risk - Execution was mentioned as the biggest risk the company faced as stated by ECOM's spokesperson. The concern on the ability to sustainably execute operational functions by keeping up with the growth at the company is currently a challenge.

Mitigation: Invest and retain talent who are able to assist with the execution and dealing with clients. With the onset of the great resignation through 2021 which is spilling over in 2022, retaining talent would be a challenge. ECOM has been able to do so by internal efforts.

Probability: Moderate, Impact: Major

O3. Pandemic Risk - ECOM is exposed to the risk of the pandemic in terms of the clients it caters to. If the businesses they serve are impacted severely by the volatility in the pandemic globally, that could cause their clients to pull back on taking services that ECOM has to offer.

Mitigation: ECOM has been successfully managed and had shown consistent growth since the beginning of the pandemic. This makes us believe that they have been resilient through the pandemic and used this opportunity to be able to capture new markets and grow the existing business.

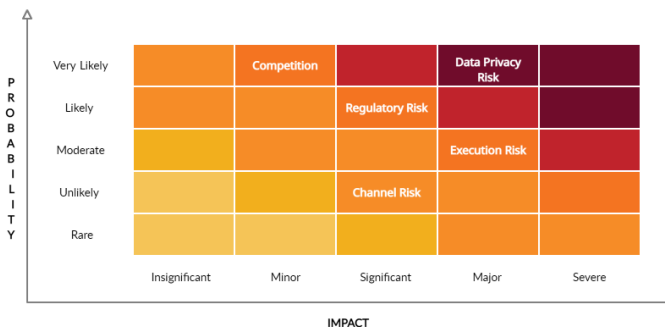
Probability: Unlikely, Impact: Minor

O4. Channel Risk - ECOM's exposure to channel dependency is severe, especially on the major channels which include Amazon, Google, and Facebook. Their primary source of revenue is generated by providing services on Amazon marketplace. In case of a change in pricing or change in their stance of Amazon of allowing third parties to be able to build and deploy APIs to serve their clients might be a major hiccup for ECOM's revenue stream.

Mitigation: ECOM has been working towards diversifying and onboarding their partner channels. This move could be valuable in case this risk realizes itself. Allowing their system to work with other channels, reduce their dependence on Amazon and other major channels while also enabling more selling streams for their clients.

Probability: Unlikely, Impact: Significant

Figure 17



Market Risk

M1. Innovation Risk - If ECOM is unable to continuously find ways to innovate its product offerings, it could become redundant and competitors could eat up their market share. They need to have a technology moat to be able to stay competitive and continue to grow. Failure to do so could be a risk for investors.

Mitigation: ECOM continues to invest in R&D and talent. This makes us believe that they have the resources and strategy to remain competitive in terms of technology.

Probability: Unlikely, Impact: Significant

M2. The threat of new entrants - ECOM faces a potential challenge in this space of new entrants. This space is highly competitive and there are barriers to entry for new entrants making this a downside for investors.

Mitigation: ECOM has invested heavily in its technologies and products, which helps them stand out. They have also worked towards onboarding multiple channels onto their platform putting them in a unique position to fight potential new entrants in the field.

Probability: Very Likely, Impact: Minor

Political Risk

P1. Regulatory Risk - The risk of regulatory restrictions is prevalent for CA being a SaaS company. Potential laws that could restrict them to use cookies as part of their technology could be devastating for the business as that is the primary technology being used to track customers on the channels.

Mitigation: CA has been investing heavily in R&D, and developing more products and services as offerings. This helps them diversify their product offering spectrum making them less immune to any tracking regulations being put in place.

Probability: Likely, Impact: Significant

P2. International Trade Risk - Due to the large global footprint, any restrictions coming in towards foreign companies handling domestic data outside the United States could cause a damper for ECOM business.

Mitigation: ECOM has expanded its presence in 47 countries over the years, which allows them to diversify its client portfolio and not be exposed to any one nation or region. We believe this diversification puts the company in a comfortable position from a geographical perspective which does not pose as a major downside for investors.

Probability: Unlikely, Impact: Minor

P3. Data Privacy Risk - Data privacy has been a major point of discussion among consumers, organizations, and governments in the recent past. With multiple hearings being held in the congress with representatives from big tech companies, data privacy is now being prioritized by

consumers. Companies are required to invest substantial resources in assuring that the data of their clients and end-users is being managed in a responsible manner. ECOM being a SaaS company had exposure to any risk pertaining to data privacy and its potential repercussions. Mitigation: ECOM has been at the forefront of keeping the their customers data safe by investing and incorporating cloud technology. The cloud allows organizations to store large amounts of data in a secure and encrypted manner. And with no dependence on one point of data storage, provides a certain level of confidence in keeping their data secure.

Probability: Very Likely, Impact: Major

ENVIRONMENT, SOCIAL AND GOVERNANCE

ENVIRONMENT

Due to COVID, employees have been working from home and ECOM would like to continue this trend which would reduce the operating cost and as consequence reduce its carbon footprint. Being new to ESG disclosures, ECOM has done well over the last four years but we expect them to cover more areas to bring more transparency.

SOCIAL

46.8% of the executive team is female, this shows the emphasis on gender neutrality in the company. ECOM has an obligation to protect the data of its client and customer and for that it has established a Consumer Data Protection Policy. Also, an Anti Bribery, Business Ethics, and Employee Protection Committee have been implemented.

Channel Advisor has a new program for Diversity, Equity, and Inclusion (DE&I) which acts as one of the strategic pillars towards the social responsibility of the company towards its employees and customers. Some of the key areas of focus are:

1. Awareness: Training the employees through ongoing education and training for unconscious bias. Almost 100% of employees are trained for that.
2. Access: Employing people from the regions and black communities which didn't have access to the company to bring diversity in the vendor base.
3. Acceleration: A recent allocation of US\$3 million to M&F bank to provide capital to black-owned businesses for overall growth.

GOVERNANCE

ECOM has maintained an exemplary structure for its governance which will aid in the future growth of the company. With the Board of Directors, executive management and audit committee, compensation committee, nominating, and corporate governance committee, ECOM makes sure that they have covered all the bases for unbiased governance, transparency, and

disclosure. Currently, the institutional investors hold 93.08% of the shares while insiders hold 2.28% of the shares of the company. However, in the 2021, insiders have sold a net of 95,436 shares, it would not be an issue of concern as it happened on pre-scheduled basis.

Figure 18

ESG Combined Score

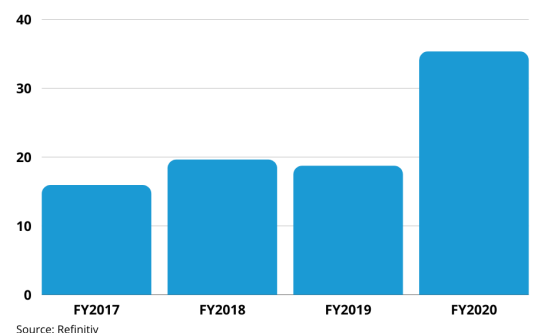
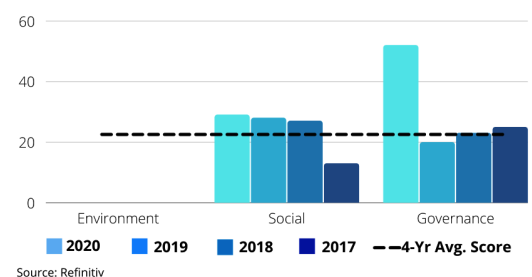


Figure 19

Environmental, Social and Governance Score (ESG Score)



Board of directors: ECOM has a diverse and very talented pool of BoD. There are nine directors who possess knowledge and experience in various relevant fields like marketing, IT, sales, and finance. Out of the eight directors, seven of them are independent directors and have holdings in the company. Holdings by almost every BoD show that they will act according to the best interest of all the shareholders. ECOM can work on the number of female directors in the company which is now as low as two members out of nine.

Executive Management: Like BoD, the members of the executive management have varied experience and they manage the day-to-day operations of the company. The executive team has 30.76 % females.

Audit Committee: Audit committee is set up to make sure that there is no discrepancy in the disclosure of accounting and financial reporting of the company. It is

responsible for analyzing the performance, compensation, and terms of employment of the auditors. This process assures that ECOM is having transparency in their business.

Compensation Committee: The compensation and the terms of employment of CEO, executive employees, and directors are decided by the compensation committee based on corporate performance and responsibilities. In addition, it administers the Company's stock option and purchase plans, pension and profit-sharing plans, stock bonus plans, deferred compensation plans, and other similar programs.

Nominating Governance Committee: This committee decides on the board members. It identifies the potential candidate, reviews them, and recommends them for membership.

APPENDIX

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APPENDIX A BUSINESS MODEL

Channel advisor is an eCommerce SaaS provider with a wide range and breadth of product offerings for retailers and brands alike. Some of the solutions offered by ECOM are:



Marketplaces: Centralizes your marketplace integration, automate tasks, and optimize performance.

Features:

- Global marketplace integration: Allows seller to manage there global e-commerce multi channel presence from one tool
- Consolidated inventory management: Helps you manage inventory across different channels which leads to more efficient inventory management
- Repricing technology: Helps you stay ahead of your competitors by smartly repricing products to help you stay ahead of them at all times
- Marketing Optimization: Allows the seller to manage all digital marketing campaigns on all the different channel from one point, ECOM also allows to make the marketing more optimized spending on ads.
- Data Engine: Helps with automated reporting and other tasks which help businesses manage orders more efficiently.
- Order Consolidation: Allows the users to consolidate orders from all channels onto one interface allowing them to better understand growth and strategize accordingly.

Digital Marketing: It has an exclusive focus on e-commerce, which has allowed them to become experts on helping and assisting brands and retailers in growing there revenues, customer acquisitions and achieving return-on-ad-spend goals(ROAS).

Benefits:

- Brand building on search, shopping, social and marketplace channels
- Optimizing digital marketing costs with the use of technology
- Helps clients stay competitive

Services: Amazon, Google, Bing, Walmart, Social Media

Shoppable Media: Allows clients to keep interested customers on path of purchase from the channel of choice.

How is this achieved:

- ECOM Where to Buy Online – connect customers to purchase products from an online retailer or your own website.
- ECOM Where to buy Local – allows customers to find a brick and mortar store where the product can be purchased from.
- ECOM Dynamic Shopping Links – To promote products which are in stock versus products which are out or low on stock.
- ECOM Buy Now Interstitial – Allow customers to buy from preferred retailer with an on brand interstitial experience that is displayed following interaction with your digital campaign.

First party solutions: Offering for brands to support multi channel, helping with purchase management,

shipment notifications, invoice maintenance, and product creation for wholesale and/or drop-ship partners (Amazon, Best Buy, Walmart and other prominent online retailers)

How Drop Ship works at ECOM:

- Inventory integration
- Support from ECOM
- Manage purchase orders, shipping, stock, invoicing for multiple channels
- Consolidated drop ship orders and communications with those orders
- Automated inventory and invoice management

ECOM also provides Content management as part of 1P solutions which allows a retailer with consistency in terms of product information wherever the retailer decides to sell there product by creating a template which can be deployed to any of the eCommerce retailers.

Fulfillment: Allows clients to pursue a wide range of fulfillment options, like own warehouses, fulfilled by amazon/retailer or third party fulfillment. Provides client with the ability to incorporate multiple solutions to have a more resilient fulfillment operation. Benefits:

- Easy integration of third party logistic provider or warehouse management or also has the option to configure a pick, pack and ship directly in the platform called ECOM Shipping Management
- Has an existing network of logistics partners allowing easy adaptation of a new partner into the system if need it

- Fulfillment performance analytics
- Frees client from fulfillment management tasks

Order management automation:

- Consolidated orders view into a single view from all channels
- E2E management of orders
- Customize orders to view as per requirement
- Export delivery and order data in a variety of formats

Shipping management options:

- Shipping management to your own warehouse
- Shipping management via 3rd party warehouse

Blueboard acquisition

ECOM in Q3 2020, formally acquired analytics firm BlueBoard with the aim to strengthen its support for brands looking to expand its eCommerce presence. The acquisition is now branded as ECOM brand analytics which now allows ECOM to continue to enhance its capabilities for brands who are looking to accelerate its growth. ECOM brand analytics helps multi-channel brands to manage online distribution, brands product content, reviews, and search performance. It will also enhance ECOM's Enterprise offering that helps brands solve their multi-channel marketplace, digital marketing, direct-to-customer, first-party retail, drop-ship, and fulfillment needs, from a single platform.

- Drop-ship network support
- Custom fulfillment connections – custom service for out of network 3rd party logistics partners

Brand Analytics: Solutions for brands from sales, to growth to reputation management on online platforms. Some of the solutions are:

- Assortment – Check the products are being sold where you need them to be sold
- Prices and Promotions – Dynamically manage pricing and promotions
- Digital Shelf – Allowing customers to find your product anywhere it is being sold
- Content and Reviews – Brand content and review management, important for digitally managing brand reputation



OVERVIEW OF BOARD OF DIRECTORS

Name	Position	Number of shares (Jun2021)	Independent	Education	Professional Competencies	Work Experience
Timothy Buckley	Chairman	97,570	Yes	B.A. from Penn State University	Technology Consultant	COO at Redhat
David Spitz	CEO	268,470	Yes	B.A. in Computer Science from UC San Diego	Marketing and Technology Expert	Entrepreneur in residence at Aurora Funds CTO at Windwire CEO at Epicor
Joseph Cowan	Director	74,431	Yes	M.S. in Engineering from Arizona State University	Technology Expert	Software Corporation President at Data Direct Networks Former treasurer at State of North Carolina
Janet Cowell	Director	20,829	Yes	MBA from Wharton School of Business	Financial Expert	CEO at Helpshift
Linda Crawford	Director	6,196	Yes	MBA from James Madison University	Customer Service Expert	Chief Revenue Officer at Optimizely BOD at Universal Biosensors
Marshall Heinberg	Director	19,251	Yes	J.D. from Fordham Law School	Financial Expert	Board of Director of Union Carbide Corporation
Timothy Williams	Director	89,515	Yes	B.A. in business from University of Northern Iowa	Financial Expert	CFO at Blackbaud CFO at Mynd Corporation
Scot Wingo	Co-Founder	44,366	Yes	M.S. in Computer Science from North Carolina State University	Technology and Business Expert	CEO and Co-Founder of AuctionRover.com
Himanshu Palsule	Director	0	No	M.S. in Software Engineering from University of Saint Thomas	Product and Technology Expert	Director at Epicor Software Corporation

Source: Company Data

EXECUTIVE TEAM

Name	Position	Appointed	Resident	Education
David Spitz	Chief Executive Officer and Director	2006	United States	B. A. in Computer Science
Richard Cornetta	Chief Financial Officer and Treasurer	2019	United States	BA, Accounting
Elizabeth Segovia	Chief Operating Officer	2019	United States	MS in Manufacturing Systems Engineering
Diana Allen	Vice President, General Counsel and Secretary	2021	United States	Doctor of Law (J.D.)

Source: Company Data

SHAREHOLDER SUMMARY

Fund Name	Percentage outstanding	Value (\$,millions)
Driehaus Capital Management, LLC	7.53%	57.05
Janus Henderson Investors	7.32%	55.48
The Vanguard Group, Inc.	6.36%	48.21
BlackRock Institutional Trust Company, N.A.	6.08%	46.07
ArrowMark Colorado Holdings, LLC	5.71%	43.28
Mellon Investments Corporation	3.89%	29.49
Disciplined Growth Investors, Inc.	3.40%	25.77
Summit Creek Advisors LLC	3.07%	23.26
Shapiro Capital Management LLC	2.99%	22.7
Fidelity Management & Research Company LLC	2.78%	21.06

Source: Refinitiv

ECOM is also held by 405 funds, with the major percentage being held by fund houses like Driehaus Capital, BlackRock, Vanguard, and Fidelity. The stock is part of many small-cap focused funds across multiple fund houses. Out of the 405 funds holding the stock, 279 are mutual funds, 70 ETFs, 54 insurance company portfolios among others. This wide coverage of holding among different types of funds further solidifies our confidence in the ability of the stock to perform well based on the company's expected performance in the near future.

ECOM is currently part of 2 major indices, namely Russell 2000 and Russell 3000. With a current market cap of approximately \$650 million, it makes the company a small-cap company. Although, as per our analysis, if the company sustains the projected growth rate at the present rate consistently, we can expect it to become a unicorn within the next 1 year.

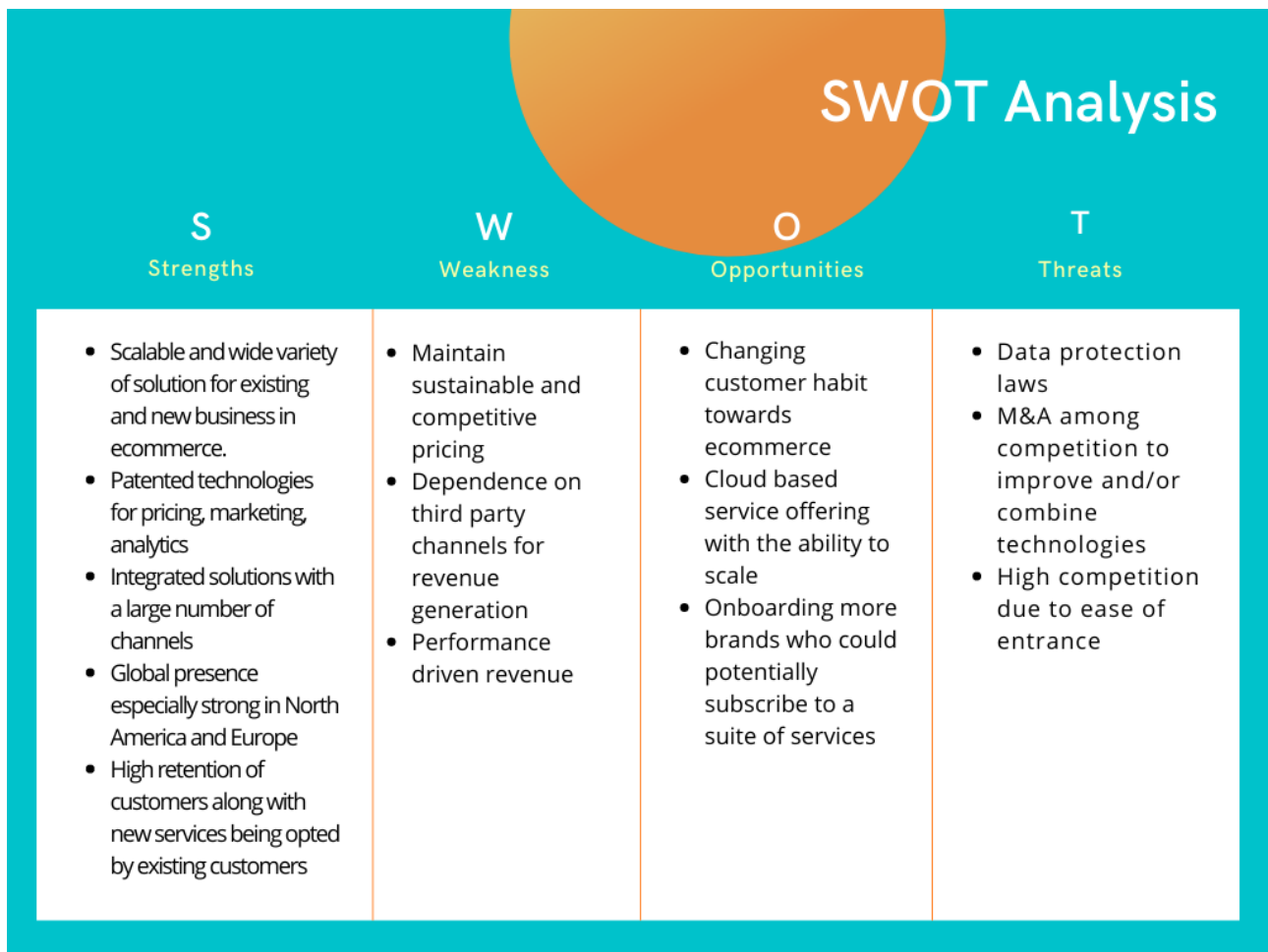
APPENDIX C FUND AND INSIDER SHAREHOLDING SUMMARY

Member Name	Number of Shares		Change
	2020	2021	
Timothy Buckley	108,430	97,570	(10,860)
David Spitz	252,289	268,470	16,181
Joseph Cowan	83,902	74,431	(9,471)
Janet Cowell	74,189	20,829	(53,360)
Linda Crawford	-	6,196	6,196
Marshall Heinberg	25,611	19,251	(6,360)
Timothy Williams	80,719	89,515	8,796
Scot Wingo	93,226	44,366	(48,860)
Richard Cornetta	87,089	92,667	5,578
Elizabeth Segovia	68,781	65,505	(3,276)
Total	874,236	778,800	(95,436)

Source: Refinitiv

Like 2020, internal members of the company have sold the shares in 2021 because of stock price appreciation. A net total of 95,436 shares were sold in 2021. The sale of shares provides a negative outlook.

APPENDIX D SWOT ANALYSIS



APPENDIX E FINANCIAL STATEMENTS

	ACTUAL					FORECAST				
	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Balancesheet										
Assets										
Current Assets										
Cash and Cash Equivalent	65,420	53,422	57,185	51,785	71,545	105,751	131,990	156,974	164,258	168,433
Short Term Investment	0	0	0	0	0	0	0	0	0	0
Cash and Short Term Investment	65,420	53,422	47,185	51,785	71,545	105,751	131,990	156,974	164,258	168,433
net Receivables	19,445	27,452	23,436	22,126	24,705	25,000	25,000	25,000	25,000	25,000
Inventory	0	0	0	0	0	0	0	0	0	0
Other Current Assets	10,972	16,462	9,248	10,452	13,874	17,215	18,937	20,830	21,872	22,965
Total Current Assets	95,837	97,336	79,869	84,363	110,124	147,966	175,927	202,804	211,129	216,398
Non-Current Assets										
Property, Plants and Equipments	13,252	10,877	12,007	20,725	16,848	14,955	14,805	14,657	14,511	14,366
Goodwill	21,632	63,486	23,486	23,486	30,990	31,000	31,000	31,000	30,000	30,000
Intangible Assets	2,660	2,503	1,894	1,285	4,155	3,300	2,970	2,673	2,406	2,165
Goodwill and Intangible Assets	24,292	65,989	25,380	24,771	35,145	34,300	33,970	33,673	32,406	32,165
Long-term investments	0	0	0	0	0	0	0	0	0	0
Tax Assets	5,244	5,550	4,162	3,584	3,551	3,479	3,409	3,341	3,274	3,209
Other Non-Current Assets	533	759	12,851	13,424	14,993	20,350	22,385	24,624	27,086	29,794
Total Non-Current Assets	43,321	43,175	54,400	62,504	70,537	73,084	74,570	76,295	77,277	79,534
Total Assets	139,158	140,511	134,269	146,867	180,661	221,050	250,497	279,099	288,406	295,932
Liabilities										
Current Liabilities										
Account Payables	4,709	7,243	1,598	409	158	158	160	161	163	164
Accrued Expenses	11,067	12,611	9,358	8,577	14,008	19,980	26,975	35,134	26,351	19,120
Short Tem Debt	0	0	0	0	0	0	0	0	0	0
Deferred Revenue	23,474	27,143	24,205	21,000	22,819	30,000	36,024	37,825	36,172	27,129
Other Current Liabilities	4,450	4,477	3,569	27,431	28,848	5,000	6,016	6,918	7,264	7,628
Total Current Liabilities	43,700	51,474	38,730	36,417	43,014	55,138	69,175	80,039	69,950	54,041
Non-Current Liabilities										
Long Term Debt	0	0	0	0	0	0	0	0	0	0
Operating Lease	0	0	0	9,767	5,394	0	0	0	0	0
Deferred Tax Liabilities Non-Current	0	0	0	0	0	0	0	0	0	0
Other Non-Current Liabilities	8,461	7,126	5,901	1,034	2,162	2,160	2,182	2,182	2,182	2,182
Total Non-Current Liabilities	8,461	7,126	5,901	10,801	7,556	2,160	2,182	2,182	2,182	2,182
Total Liabilities	52,161	58,600	44,631	47,218	50,570	57,298	71,357	82,220	72,131	56,223
Total Equity										
Common Equity Contributed	86,997	81,911	89,638	99,649	130,091	163,752	179,140	196,879	216,275	239,709
Equity Non-Contributed	252,184	262,832	271,550	278,111	288,842	299,600	302,596	305,622	308,678	311,765
	165,187	180,921	181,912	178,462	158,751	135,848	123,456	108,743	92,403	72,056

	ACTUAL					FORECAST				
	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Cashflow Statement										
Operating Cashflow										
Profit and Loss	-8,010	-16,348	-7,294	3,756	19,111	30,052	40,783	45,246	47,008	47,821
Depreciation& Amortization	6,500	6,500	6,500	6,500	6,500	12,600	12,222	12,488	12,616	12,591
Stock Based Compensation	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Cashflow from Operating Activities Net WC	8,490	152	9,206	20,256	35,611	52,652	63,005	67,734	69,624	70,412
Net Working Capital (Changes)	4,470	-4,950	-8,940	-7,580	-890	25,718	13,924	16,013	18,415	21,177
Net Cashflow	12,960	-4,798	266	12,676	34,721	78,370	76,929	83,747	88,039	91,589
Investing Cashflow										
Capital Expenditure	-1,960	-5,260	-2,940	-3,710	-13,200	-2,152	-2,195	-2,239	-2,284	-2,329
Financing Cashflow										
Net Cashflow Financing	-3,900	-4,140	-4,090	-4,620	-1,460	-10,000	-10,000	-10,000	-10,001	-10,000
Free Cashflow to Equity	7,100	-14,198	-6,764	4,346	20,061	66,218	64,734	71,508	75,755	79,259

	ACTUAL					FORECAST				
	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Income Statement										
Revenue	113,200	122,535	131,218	129,959	145,072	166,865	188,557	209,299	228,136	244,105
Cost of Revenue	27,620	25,950	29,501	29,008	30,354	36,710	45,254	54,418	63,878	73,232
Gross Profit	85,580	96,585	101,717	100,951	114,718	130,155	143,304	154,881	164,258	170,874
Gross Profit Ratio	76%	79%	78%	78%	79%	78%	76%	74%	72%	70%
Expenses										
Research and Development	17,736	21,868	22,359	19,200	18,990	22,379	24,233	27,535	31,182	34,541
Marketing	56,602	63,495	60,080	52,813	52,905	49,579	49,892	52,241	54,684	56,144
General Administration	25,079	27,800	26,784	25,136	23,739	27,544	27,695	29,059	30,483	31,368
Operating Expenses	99,417	113,163	109,223	97,149	95,634	99,503	101,821	108,835	116,349	122,053
Interest Expenses	0	0	0	0	0	0	0	0	0	0
Cost and Expenses	127,037	139,113	138,724	126,157	125,988	136,213	147,075	163,253	180,227	195,284
Depreciation & Amortization	7,838	6,578	6,094	8,377	12,540	-12,600	-12,222	-12,488	-12,616	-12,591
EBITDA	-5,827	-9,695	-893	10,507	25,781	43,252	53,705	58,534	60,524	61,412
EBITDA Margin	-5%	-8%	-1%	8%	18%	26%	28%	28%	27%	25%
EBIT	2,011	-3,117	5,201	18,884	38,321	30,652	41,483	46,046	47,908	48,821
Net Income Ratio	2%	-3%	4%	15%	26%	18%	22%	22%	21%	20%
Tax	-5,658	284	614	689	443	-600	-700	-800	-900	-1,000
Net Income	-3,647	-2,833	5,815	19,573	38,764	30,052	40,783	45,246	47,008	47,821
EPS	-0.12	-0.09	0.18	0.62	1.23	0.95	1.29	1.44	1.49	1.52
Outstanding Shares	31,500	31,500	31,500	31,500	31,500	31,500	31,500	31,500	31,500	31,500

APPENDIX F -SENSITIVITY ANALYSIS

		Revenue				
		8%	9%	10%	11%	12%
W A C C	9%	31.29	32.20	33.13	34.10	35.10
	10%	27.51	28.29	29.10	29.94	30.81
	11%	24.57	25.26	25.98	26.72	27.49
	12%	22.23	22.85	23.49	24.15	24.83
	13%	20.31	20.87	21.45	22.05	22.67

		COGS/Revenue				
		-2%	-1%	0%	1%	2%
W A C C	9%	39.56	38.52	37.48	36.44	35.39
	10%	34.65	33.74	32.82	31.91	31.00
	11%	30.84	30.03	29.21	28.40	27.59
	12%	27.8	27.07	26.34	25.60	24.87
	13%	25.33	24.66	23.99	23.32	22.65

		Perpetual Growth				
		1%	2%	2%	3%	3%
W A C C	9%	31.08	32.63	34.40	36.45	38.83
	10%	27.75	28.92	30.25	31.75	33.47
	11%	25.09	26.01	27.03	28.17	29.45
	12%	22.92	23.65	24.46	25.35	26.34
	13%	21.1	21.71	22.36	23.07	23.85