

The Next FAMGA

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Will the mid-market tech companies outpace big tech? Is there a limit to big tech's unstoppable climb to trillion-dollar valuations?

The answer is looking more and more like yes.

FAMGA—Facebook, Amazon, Microsoft, Google and Apple—have long used [M&A](#) as a mechanism to expand into new markets. By leveraging their existing user base, these tech monopolies can acquire a new platform business and supercharge that platform's network with the tech monopoly's existing audience. Facebook most notably did this with Instagram and then WhatsApp. Amazon bought Twitch and incorporated it into Prime Video, bringing large amounts of eyeballs and subscription dollars to Twitch creators. And of course, Google buying YouTube for \$1 billion and sunseting its own version, called Google Video, was one of the best acquisitions in the past 15 years. This past quarter, YouTube generated about \$7 billion in revenue with much lower content spend as compared to its linear competitors.

However, due to the political and media environment against tech monopolies abusing their power, it's becoming much more difficult for FAMGA to use M&A as a material mechanism for growth. Amazon's acquisition of MGM is expected to receive a great deal of scrutiny. Facebook's relatively tiny \$400 million acquisition of Giphy is now running into major issues. Google originally wanted to buy Twitch, but Amazon's slightly smaller bid was accepted instead of Google's because of less anti-trust concern on behalf of Twitch's management. FAMGA's ability to use M&A is coming under fire, and it's making an impact on how the big tech monopolies think about growth—and what options, or lack thereof, are made available to them.

Enter SEUSS.

These mid-market, high-growth tech companies are all using M&A as a strategic growth lever to turn themselves into the next modern monopolies. The playbook is repeating itself as the biggest tech players wallow in dealmaking paralysis. The new gang of five includes three platform businesses—Salesforce, Etsy and Uber—and two up-and-coming [platform businesses](#) in Square and Spotify. Another notable mention is Shopify, which will probably follow Salesforce's lead on pursuing a material M&A transaction in the near future and is also evolving from a linear to platform business.

Even though FAMGA outperformed SEUSS in the past six months, the short-term performance of these stocks is not indicative of their longer-term potential, which is where the true impact of their M&A activities

will be felt. The SEUSS stocks are a great example of mid-market tech companies using M&A as a mechanism to drastically accelerate growth, and they will most likely outpace FAMGA's growth in the coming years.

Let's evaluate some recent interesting transactions from SEUSS:

Salesforce acquires Slack.

Salesforce, the customer relationship management (CRM) tool that generates more than \$1 billion in revenue from its development platform business, has typically used M&A in the past to bolt-on additional SaaS offering like Marketo for marketing tools and Tableau for analytics and visualization tools. Salesforce's recent Slack acquisition is classic platform M&A. A communication and collaboration platform with an up-and-coming development platform of its own, Slack looks like it could be a perfect complement to Salesforce's enterprise CRM and marketing tool customers. Both are competing against Microsoft, so the combination also makes sense from a competitive perspective. The enemy of my enemy is my friend—or in this case, my acquirer.

Spotify markets a podcasting platform.

Today, Spotify is predominantly a linear business. Because of concentration in music rights and licensing, Spotify doesn't have a [network effect](#) like YouTube or Twitch do with content creators. This reliance on heavily concentrated sources of content makes Spotify vulnerable, and it knows it. Enter podcasting.

Podcasting is a much more fragmented audio market, and one that Spotify sees the opportunity to dominate. Spotify did small M&A to roll out its tech for podcasting tools and product features, but it has spent the biggest amount of money to solve the chicken and egg problem through a [marquee-user strategy](#). Much like a mall that needs an anchor tenant to attract foot traffic, Spotify has spent on acquiring top podcasting shows and brands to attract people to its podcasting platform. The hope is that these marquee shows will attract enough users that third-party podcast creators will want to go through Spotify in order to reach a big audience. Eventually, Spotify will likely try to integrate ads into all of these shows—similar to what YouTube does with videos—which it hopes will draw creators away from rival podcasting distribution services provided by Apple and others.

Microsoft tried a similar strategy to launch its own Twitch competitor, called Mixr. Microsoft lured away major streamers like Ninja from Twitch with big payouts. However, Twitch's network effects and market position are strong enough that Microsoft quickly failed, despite its big spend.

Unlike Microsoft, Spotify is seeing success so far. It recently passed Apple Music's podcast audience after only a few years. For context, Apple's podcasting business has been around for more than 15 years. The linear business (Spotify) beating the big platform monopoly (Apple) through a platform strategy is a pretty impressive thing to see. Kudos to the Spotify team.

Etsy acquires Depop in Europe and Elo7 in Brazil.

Etsy has been on fire these past couple years. COVID-19 catapulted Etsy's business to almost 3x its size overnight, leveraging its network of homemade creators to create personal protective equipment and other innovative products. Its volumes exploded and so has its stock price. Its new CEO has been using the wind in his sail to expand Etsy internationally and into new business models and to officially become a platform conglomerate.

Depop is one of the top two second-hand clothing marketplaces in Europe. The other top player is Vinted. These companies allow you to sell your used clothing to other consumers—and, presumably, the same people who are buying and selling second-hand clothing would also be interested in the handcrafted type of goods normally found on Etsy. Not only does Etsy get a foothold in Europe with a complementary business model, but now it can also bring Depop's model to the United States. ThredUp and Poshmark would be the top two competitors, both public and in the [WisdomTree Growth Leaders Fund](#). These two platforms are not platform conglomerates or nearly the size of Etsy. As we've seen with other platforms that rise to a position of dominance in their core platform model, expanding into an adjacent platform type can provide wonderful cross-pollination opportunities. Case in point: Uber ridesharing and Uber Eats.

Then, a month after the Depop acquisition, Etsy announces a smaller acquisition of Elo7 in Brazil. This marketplace is closer to home: Elo7 sells handmade jewelry, clothes, belts, bags and other products. This transaction is more about expanding into South America as compared to the Depop acquisition, which brings international expansion as well as business model expansion.

Uber acquires Drizly and Transplace.

Uber's push into alcohol delivery is a nice complement to its existing food delivery business and can also leverage the same network of drivers. Drizly has a different business model because alcohol laws prevent [Drizly from charging a take rate](#), like Uber ridesharing. Instead, Drizly charges a subscription fee to the local alcohol store and is trying to earn more advertising revenue from manufacturers. This could be part of a broader play for Uber to monetize the data it sits on—particularly within Uber Eats—with brands and consumer packaged goods.

The Transplace acquisition is an interesting one. And, as discussed on our show Winner Take All, more of a "check-down" than a push into a new disruptive business model like Drizly. Transplace has been around for more than 20 years, was owned by private equity and was profitable. Uber will be able to hide the losses of Uber Freight in the existing profits of Transplace and can then tell Wall Street that it's not losing money anymore on its freight and logistics business. There are synergies with the Transplace acquisition, absolutely, but this transaction doesn't exactly fit the narrative with the rest of the SEUSS companies trying to use M&A as a mega-driver of growth—as compared to the 15% CAGR of Transplace, which is on the low end for this group.

Square acquires Afterpay.

Afterpay could be the linear hook to close the loop on Square's original platform idea: connecting consumers with merchants. Square's closest thing to a platform business is Square Cash, its payment app/Venmo competitor. Square's merchant terminal business is a great product but still linear. Square did

point-of-sale financing to merchants but didn't create a lending marketplace. Instead, it lent money in a linear model that is still making great profits.

Afterpay and Affirm are both buy now, pay later (BNPL) fintech providers. They give consumers the ability to purchase a product and pay for that product over a period of time, spread across multiple payments. The manufacturer does a deal with the BNPL provider to integrate its payment product into the manufacturer's e-commerce checkout process. This capability could be the big unlock to change consumer behavior for Square's customers to use Square as a regular mechanism to pay merchants—with or without a BNPL feature. Square could start to incorporate BNPL type financing into its Square Cash app or roll out additional loyalty programs for merchants and retailers. Remember the payment company focused on loyalty called LevelUp? A BNPL capability from Afterpay could help Square Cash deliver on a vision similar to LevelUp's. LevelUp was ultimately sold to Grubhub in a not-so-great acquisition for LevelUp, but the opportunity lives on for someone else to capture—perhaps it's Square's turn.

In conclusion, FAMGA can still deliver solid growth, but we believe that SEUSS will outperform over the coming years. At the size and scale of the tech monopolies, it's very hard to start new businesses from scratch. Facebook is trying to roll out its metaverse concept, for example, but it also acquired multiple virtual reality companies leading up to this point. Tech is moving so fast, and these companies are not as nimble as they once were. That's where M&A, when used properly, can be a huge growth accelerant. The SEUSS companies may still fumble the ball on these acquisitions and others in the future—integration is the hardest part of making any M&A transaction truly successful. But assuming they can do a halfway decent job on integration, the odds should be in their favor to outperform FAMGA in the coming years.

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