Rebels on the Rise

They say the first $100 million is the hardest.

Gross Merchandise Sales ("**GMS**")[1] is arguably one of the most prevalent metrics tracked in e-commerce today. GMS[1] measures the total sales volume that a given e-commerce business processes, and is a metric that EMERGE Commerce ("**EMERGE**") and other e-commerce companies monitor and report on. One of the reasons it is such a widely used metric is because e-commerce companies often have different revenue recognition policies, so GMS[1] allows for an 'apples-to-apples' comparison of total sales volume, which serves as a proxy for sheer size and ultimately, market share.

In mid-November 2021, following our acquisition of WholeSalePet.com, a profitable B2B e-commerce marketplace, **EMERGE eclipsed $100 million in pro forma GMS[1]**. This means our network of e-commerce brands collectively process in excess of $100 million annually worth of products, experiences, and services, making EMERGE one of a few pure-play Canadian e-commerce companies to eclipse the $100 million GMS[1] mark, a goal that nearly every e-commerce startup includes as a key milestone in their journey.

They say the first $100 million is the hardest. We have reason to believe so, getting here was by no means easy, but what we have found so far is that scale breeds more scale. To illustrate, it took EMERGE about 4 years to arrive at approximately $30 million GMS[1] at the time of our go-public listing in December 2020, and since then, it has only taken us less than a year to surpass $120 million on a pro forma basis, more than 4x the GMS[1] at the time of EMERGE's go public listing. With that being said, GMS[1] is the starting point, not the end goal. **Importantly, our revenue on a pro forma basis has grown by around 6x compared to when EMERGE went public in December 2020, and our Adjusted EBITDA[1] on a pro forma basis has grown by almost 9x in 2021 when considering our latest acquisitions.**

Accelerating Acquisitions

EMERGE's operations commenced in mid-2016. To date, we have completed **7 acquisitions in North America, operating 8 brands across 5 verticals**. We went public in large part to accelerate the pace and the size of our acquisitions. In 2021, **our first year as a public company, we announced 3 acquisitions of 4 brands, compared to one transaction in the prior year.** Our acquisitions have generally skewed larger and more profitable with time, mainly because we have gained credibility with our investors, lenders, and ultimately with high calibre prospective sellers, who now have the benefit of seeing that we have successfully acquired and partnered with quality e-commerce businesses, management teams, and brands. We believe that continuing to build our track record will grant us access to high quality acquisition opportunities as we progress.

With the investments we have made in our team and infrastructure, **we expect 2022 to be another busy year on the acquisitions front.** We have a robust pipeline and are actively advancing multiple opportunities.

M&A Flywheel

From a technical standpoint, our repeatable M&A-driven flywheel works as follows. First, we acquire proven, profitable e-commerce businesses that deliver positive EBITDA[1], typically with healthy cash flow conversion. Second, the additional acquired cash flow affords us the ability to increase our debt capacity (we are generally **comfortable with a 3-4x debt to EBITDA[1] range**). Third, we tap into further debt available to us to acquire additional companies, thereby delivering more EBITDA[1] and cash flow. Fourth, the cycle repeats itself again and so forth.

Importantly, our model is such that we aim to **acquire e-commerce businesses for 4-6x EBITDA[1], typically with around 3x in upfront cash.** As long as we are able to continue to do that, we expect to be in a position to finance the majority, if not all, of the upfront purchase price of acquisitions with debt, thus minimizing dilution to shareholders over time.

There are currently thousands of **profitable e-commerce opportunities** out there. Ten years ago, this was not the case at all. In fact, you would be challenged to find any profitable e-commerce businesses in the early days. Enter Shopify and other e-commerce enablement technologies. With superior and more affordable technology, these software companies have powered a movement of small to mid-size e-commerce companies, or **as Shopify commonly refers to it, "Arming the Rebels"** to compete with larger giants, such as Amazon. These bootstrapped e-commerce rebels run lean and mean, outsourcing technology to Shopify and the likes, while focusing on winning their respective niche by applying their unique domain expertise to merchandising, sales, marketing, and supply chain, enabling them to command market leadership positions in small but growing niches that the Amazons of the world are not paying as much attention to.

The resulting ocean of niche players has created an unprecedented opportunity to consolidate these largely bootstrapped e-commerce businesses under a unified portfolio. In a nutshell, that is the essence of what EMERGE does. **We acquire high-performing e-commerce rebels, bootstrapped e-commerce companies with a multi-year track record of organic growth and profitability, and typically a market leadership position, or a real shot at it, in their respective niche.** I always say what took a business from $0 to $10 million in revenue is not likely what will take that same business from $10 million to $100 million. That is where EMERGE steps in and partners with proven management teams to supplement their skillsets and resources with ours. **We aim to see a $100 million opportunity over the next 3-4 years for every vertical we enter into, inclusive of tuck-in acquisitions.**

Extracting Synergies - A Key Priority in 2022

A natural question is where does the value-add come from once EMERGE acquires these e-commerce rebels. The answer is far from 'sexy', and lies in **centralizing a whole host of vendor software solutions, administrative and analytics functions, as well as cross-selling and data partnerships.** For example, we currently own and operate 8 brands, and over time, I see a day where we operate 100 brands. It would not make sense for each of these brands to have separate payment processors, email providers, fraud prevention systems, and customer service licenses. Packaging our portfolio companies together enables EMERGE to unlock savings and streamline processes for our businesses, with the added benefit of saving them additional time to focus on their domain expertise, while leaving the 'pipes' to be handled by EMERGE.

So far, EMERGE has largely spent the early years acquiring anchor businesses and capable management teams across our 5 verticals (pets, golf, premium meat, outdoor gear, and local experiences). As such, the amount of synergy is limited to corporate savings and occasional cross-selling. Now that a number of core verticals have been cemented, in this next phase, we plan to pursue tuck-in acquisitions to bolster existing verticals, in addition to continuing to launch new verticals. Tuck-in acquisitions, in particular, are especially conducive to a deeper level of synergy between the brands.

Having announced 4 acquisitions in 2021, extracting synergies is a big operational theme for 2022 in particular, and we are keen to drive savings and upside across the portfolio.

Operating with Discipline

One metric we pay attention to at EMERGE is 'GMS per Employee'[1]. As of now, on a trailing twelve months pro forma basis, we drive north of **$1 million GMS per Employee[1].** Dare I share, **this is almost 3x the GMS per Employee[1] at Amazon[4,5].** Perhaps not quite an apples-to-apples comparison, as Amazon's business has evolved into various non-e-commerce verticals as well, but you can count on me to let you know anytime we fare better than Amazon, at anything.

Another 'efficiency' metric that demonstrates EMERGE's disciplined approach to capital allocation and operations is ’GMS to Equity Capital Raised’[1], which is approximately 3x at EMERGE compared to around 1x we have generally seen in many early-mid stage e-commerce companies**, meaning we have managed to translate every $1 of equity raised into approximately $3 of GMS[1].**

Investors are encouraged to compare these two ratios for EMERGE with other e-commerce companies, large and small, to not only get a sense of scale but equally importantly, **how efficiently a company is able to arrive at said scale.**

The Rise of E-Commerce Consolidators

Perhaps one of the hottest themes in all of e-commerce today is the rise of "Amazon aggregators", whereby holding companies acquire and consolidate a portfolio of largely Amazon 'FBA' stores under one roof, leveraging shared technology, supply-chain, and data. There are inherent similarities between this approach and the model that EMERGE pioneered over the last 5 years.

The main difference, however, is that EMERGE mainly focuses on acquiring e-commerce brands that own their core assets, including a differentiated brand with established, direct relationships with their customers, and are not reliant on Amazon for traffic and product rankings. Each model has its merits, however, it is our view that relying solely on the Amazon ecosystem poses certain risks over time. Not to say we would never explore acquiring Amazon-based businesses as part of our diversified e-commerce strategy, however, we do not see reliance on Amazon as an advisable approach for EMERGE.

For now, it seems these risks are not dissuading investors, as Amazon aggregators have reportedly raised nearly $12 billion[7] in capital across almost 100 players. Thrasio, a private U.S. based company, is considered the leader in the Amazon roll-up wars, having recently raised $1 billion at a rumoured valuation in excess of $5 billion[8], or approximately 5x GMS[1], a considerably higher multiple than even global e-commerce powerhouses like Amazon and Alibaba command.

Valuation Discrepancy

While Thrasio's valuation reflects its position as the global 'poster child of e-commerce aggregation' theme, there are a number of other e-commerce and consolidation peers that trade at substantially higher premiums to EMERGE's valuation[2] today. We took a look at three 'comparable' categories: e-commerce & marketplace giants such as Amazon and Shopify, direct to consumer e-commerce companies such as Warby Parker and HelloFresh, and Canadian consolidators, mostly SaaS businesses, such as Constellation Software.

While we have yet to formally report our Q4 results, we believe they will provide a partial glimpse of the scale and profitability of the pro forma platform, given we completed two acquisitions during the fourth quarter of 2021. We believe that eclipsing $100 million in GMS[1] was the first step in arriving at the 'entry point' for compelling scale. **We also anticipate 2022 will be our first year of positive Operating Cash Flow,** so we are excited to deliver on that key milestone. Another goal of ours this year is to arrive at **$100M in revenue on a pro forma basis and $10M in Adjusted EBITDA[1], on a pro forma basis post-acquisitions.**

The consensus price for EMERGE from research analysts at Raymond James and Canaccord Genuity currently sits at $1.73/share[6]. While EMERGE does not yet offer guidance, and is not endorsing analyst guidance, we present this as another data point for investors to be aware of and factor into their own analysis.

Ultimately, the share price is up to investors to decide, and we will remain focused on executing against our ambitious plans for the long term.

Attracting World-Class Investors

In our ongoing quest to surround EMERGE with world-class investors and partners, we announced last week that Harish Consul, Founder and CEO of Ocgrow Ventures, has joined EMERGE as a Strategic Advisor. Ocgrow is a prolific technology and e-commerce investor, including early investments in Amazon, Shopify, and Coupang (the 'Amazon of South Korea'). Ocgrow is also a co-investor with Bill Gates, Khosla Ventures, and various other premier Silicon Valley investors. We believe the addition of Harish and Ocgrow Ventures ushers in a new era of long-term strategic partners that have great alignment with EMERGE's long-term ambitions of scaling one of the preeminent e-commerce portfolios globally. *For more information, please see EMERGE's news release dated January 17, 2022, posted to our SEDAR profile at www.sedar.com.*

$1 Million Day Achieved. Daily Goal, One Day.

Perhaps a testament to the culmination of the team's hard work in 2021, we registered our first $1 million GMS[1] day on Cyber Monday (November 28, 2021), typically the largest day of the year for most e-commerce companies. I told the team that in the not too distant future, I see a day where we are capable of selling $1 million worth of goods and services on a daily basis. We also achieved 3x growth year-over-year during the Black Friday-Cyber Monday period, considered the 'Super Bowl' of the e-commerce world. Ultimately, **November was our first $10 million GMS[1] month, exceeding our entire GMS[1] during the third quarter of 2021.**

Eclipsing $100 million GMS[1] is quite the milestone, especially in the context of the Canadian e-commerce landscape, but it really is only 10% of the way to $1 billion, and that is an even smaller drop in the bucket, 0.023% to be precise, of the $4.3 trillion[3] global e-commerce market. By the time we look up again in 2 years or so, the e-commerce market is forecasted to be $6.3 billion[3] by 2024.

One thing I can say with a high degree of confidence is that **there will be dozens, if not hundreds, of multi-billion dollar e-commerce companies created globally over the next decade. We truly believe we can be one of them.**

We absolutely still have work to do, but let me just say, I could not be more proud of the work we are doing together.

They say the first $100 million is the hardest. We are on a mission to prove them right.

Thank you for your enduring support.

#RebelsUnite

Ghassan Halazon

Founder & CEO

EMERGE Commerce Ltd. (TSXV: ECOM)

Footnotes

1) Non-GAAP Financial Measure or Non-GAAP Ratio. Refer to section "Non-GAAP Financial Measures" below for additional information.
2) Source: Capital IQ, Comparables include Amazon, Shopify, Airbnb, Etsy, Wayfair, Chewy, HelloFresh, Warby Parker, Goodfood, Constellation Software, Dye & Durham, Converge Technology, Well Health and WeCommerce.
3) Source: Shopify Global Ecommerce Explained: Stats and Trends to Watch in 2021. https://www.shopify.ca/enterprise/global-ecommerce-statistics
4) Source: Amazon GMV in 2020 https://www.marketplacepulse.com/articles/amazon-gmv-in-2020
5) Source: Number of Amazon.com employees from 2007 to 2020 https://www.statista.com/statistics/234488/number-of-amazon-employees/
6) Source: Based on Raymond James research note dated December 8, 2021 and Canaccord Genuity research update note dated January 17, 2022.
7) Source: https://www.marketplacepulse.com/articles/amazon-aggregators-raised-over-12-billion-in-2021
8) Source: https://techcrunch.com/2021/10/25/thrasio-the-amazon-aggregator-raises-1b-in-fresh-funding-at-a-valuation-of-up-to-10-billion/

Notice regarding forward-looking statements

This letter contains forward-looking information within the meaning of applicable Canadian securities legislation ("forward-looking information"), that is not based on historical fact, including, without limitation, statements containing the words "believes", "anticipates", "plans", "intends", "will", "should", "expects", "continue", "estimate", "forecasts" and other similar expressions. Forward-looking information in this letter includes statements regarding the following: expectations regarding future acquisitions and the size of such acquisitions; expectations regarding EMERGE's strategies for 2022 and beyond; expectations regarding the future operation of brands; plans to pursue tuck-in acquisitions; plans to launch new verticals; expectations regarding EMERGE's fourth quarter of 2021 results; expectations regarding EMERGE's Operating Cash Flow, Revenue and EBITDA on a pro forma basis; expectations regarding the addition of Harish Consul and Ocgrow Ventures;

expectations regarding the global e-commerce market; and expectations regarding EMERGE over the long term. Readers are cautioned to not place undue reliance on forward-looking information. Actual results and developments may differ materially from those contemplated by these statements. EMERGE undertakes no obligation to comment on analyses, expectations or statements made by third-parties in respect of EMERGE, its securities, or financial or operating results (as applicable). Although EMERGE believes that the expectations reflected in forward-looking information in this letter are reasonable, such forward-looking information has been based on expectations, factors and assumptions concerning future events which may prove to be inaccurate and are subject to numerous risks and uncertainties, certain of which are beyond EMERGE's control, including the risk factors discussed in EMERGE's annual information form, which is available through SEDAR at www.sedar.com. The forward-looking information contained in this letter are expressly qualified by this cautionary statement and are made as of the date hereof. EMERGE disclaims any intention and has no obligation or responsibility, except as required by law, to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

Non-GAAP Measures

*This letter makes reference to certain non-GAAP measures and non-GAAP ratios. These non-GAAP measures and non-GAAP ratios are not recognized measures under International Financial Reporting Standards ("**IFRS**"), do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing a further understanding of results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the financial information of EMERGE reported under IFRS. GMS, EBITDA and Adjusted EBITDA should not be construed as alternatives to revenue or net income/loss determined in accordance with IFRS. GMS, GMS per Employee, GMS to Equity Capital Raised, EBITDA and Adjusted EBITDA do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. For further information on the non-GAAP Financial Measures used in this letter, please refer to EMERGE's MD&A for the three and nine months ended September 30, 2021 and 2020, which is available through SEDAR at www.sedar.com.*

GMS as defined by management is the total dollar value of customer purchases of goods and services, excluding applicable taxes and net of discounts and refunds. Management believes GMS provides a useful measure for the dollar volume of e-commerce transactions made through our platforms and an indicator for our business performance.

GMS per Employee is the ratio of GMS divided by the total number of employees. GMS to Equity Capital Raised is the ratio of GMS divided by the total dollar value of equity capital raised since inception. Management believes these ratios can provide a useful measure for the efficiency of our business performance.

EBITDA, which is earnings before interest, taxes, depreciation and amortization, and Adjusted EBITDA as defined by management means earnings before interest and financing costs, income taxes, depreciation and amortization, transaction costs, foreign exchange gains/losses, discontinued operations, unrealized gains/losses on contingent consideration and share-based compensation. Management believes that Adjusted EBITDA is a useful measure because it provides information about the operating and financial performance of EMERGE and its ability to generate ongoing operating cash flow to fund future working capital needs and fund future capital expenditures or acquisitions.