



# Consolidation in the E-commerce Ecosystem

Impact of COVID - 19

# Contents

1

## Executive Summary – COVID and the E-commerce Market

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2

### Current Scenario

- Surge of Online Spending as an Impact of COVID
  - Rising contribution of online shopping has helped the valuations of E-commerce companies
  - This Momentum Likely to Continue Even After the Pandemic is Over
  - Factors Fueling Consolidation Trends in the E-commerce Ecosystem
- 

3

### Key Consolidation Trends

- Integration of Brands and Market Places
  - Fully Integrated E-commerce Service Companies in High Demand
  - Consolidation within Technology Companies is Generating Traction
  - Cross Border Transactions are Gaining Popularity
- 

4

### Valuation and the Way Forward

**1.**

# **Executive Summary**



# Executive Summary - COVID and the E-commerce Market

## E-commerce Market Amidst COVID

- While the e-commerce industry was already on a steady year-over-year growth as a percentage of total retail sales during the past 10 years, the pandemic only amplified that growth trajectory.
- According to the U.S. Census Bureau News, e-commerce sales represent **15.7% of total retail sales in Q4 2020** versus **12.7% in Q4 2019**, up 32% year-over-year.

## Shift in the Valuation of E-commerce Related Targets

- The increasing prevalence of online shopping has continued the momentum of mergers and acquisitions in this space despite the set-backs faced by the global M&A industry amidst the pandemic.
- This coupled with a huge boost in performance of e-commerce companies has resulted in an overall increase of valuations of such companies – **more than thrice as much as the rest of S&P 400 index in 2020**.

## Rising Consolidation within the E-commerce Ecosystem

- e-commerce related companies, including retailers, brands, tech, digital agencies, logistics, etc., are realizing the importance of **expanding their e-commerce capabilities** and are now actively seeking **new investments** and **consolidation** opportunities. This budding ecosystem as a result of increasing consolidation can be broadly classified into three categories:



Consumer Durables



Service Providers



Technology Providers

## Future of M&A in the E-commerce Space

- The aftermath of COVID lockdowns worldwide have shifted **companies' strategies to digital and online**.
- There likely will be a **surge of M&A activity** in the e-commerce space in 2021 as this is a strategic time for not only brands, but also digital agencies, e-commerce platforms, e-commerce tech companies, and even private equities to actively explore the opportunities.



**2.**

## **Current Scenario**

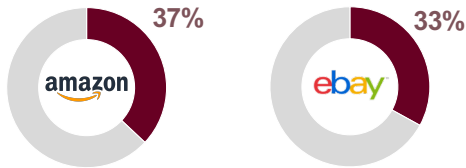


# Surge in Online Spending as an Impact of COVID

E-commerce experienced an exponential overall growth in 2020.

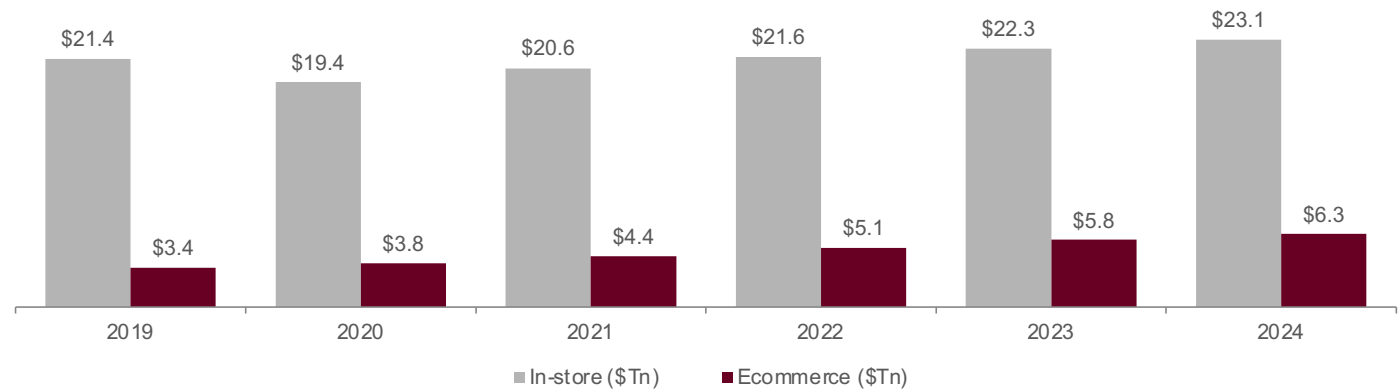
Online spending by consumers in 2020 saw a surge fueled primarily by COVID-related regulations and their impact on consumption and social behavior.

## Y-o-Y growth in earnings – Q4 2020

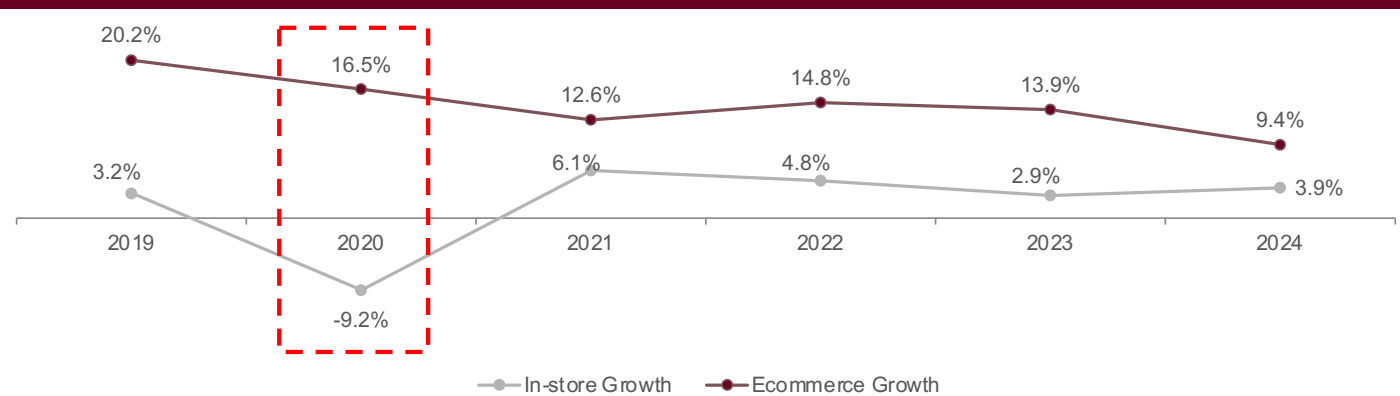


While the global in-store spending saw a massive decline of 9.2% in sales due to COVID restrictions, online spending, only slightly subdued, grew at c. 16.5% in 2020, a trend hardly witnessed in any other sector.

## Global E-commerce vs. In-store Retail Sales – USD Trillions



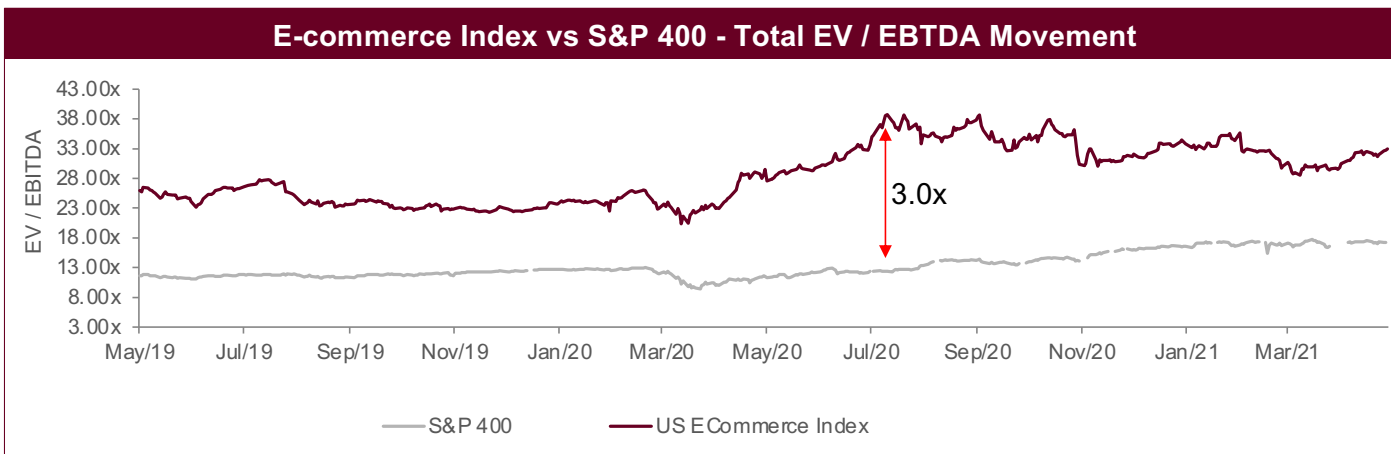
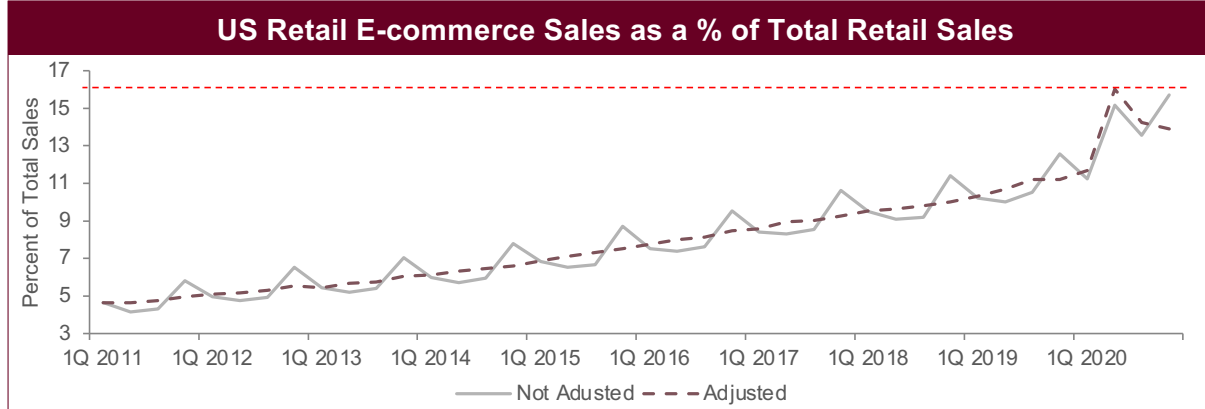
## Global E-commerce vs. In-store Retail Sales Growth: Year-Over-Year



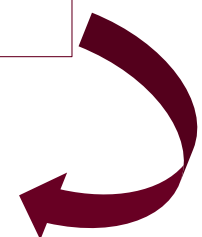
# Rising Contribution of Online Shopping to Overall Retail Sales has Helped the Valuations of E-commerce Companies

In Q4 2020, US online spending totalled \$245.3 billion, up 32.1% from \$185.7 billion for the same quarter in 2019.

According to the U.S. Census Bureau News, in Q4 2020, e-commerce sales represented 15.7% of total retail sales versus 12.7% in Q4 2019, up 32% year-over-year.



This boost in performance of e-commerce companies has resulted in an overall increase of valuations of e-commerce companies – **more than 3x as much as the rest of S&P 400 index in 2020.**



# This Momentum to Continue Even After the Pandemic is Over

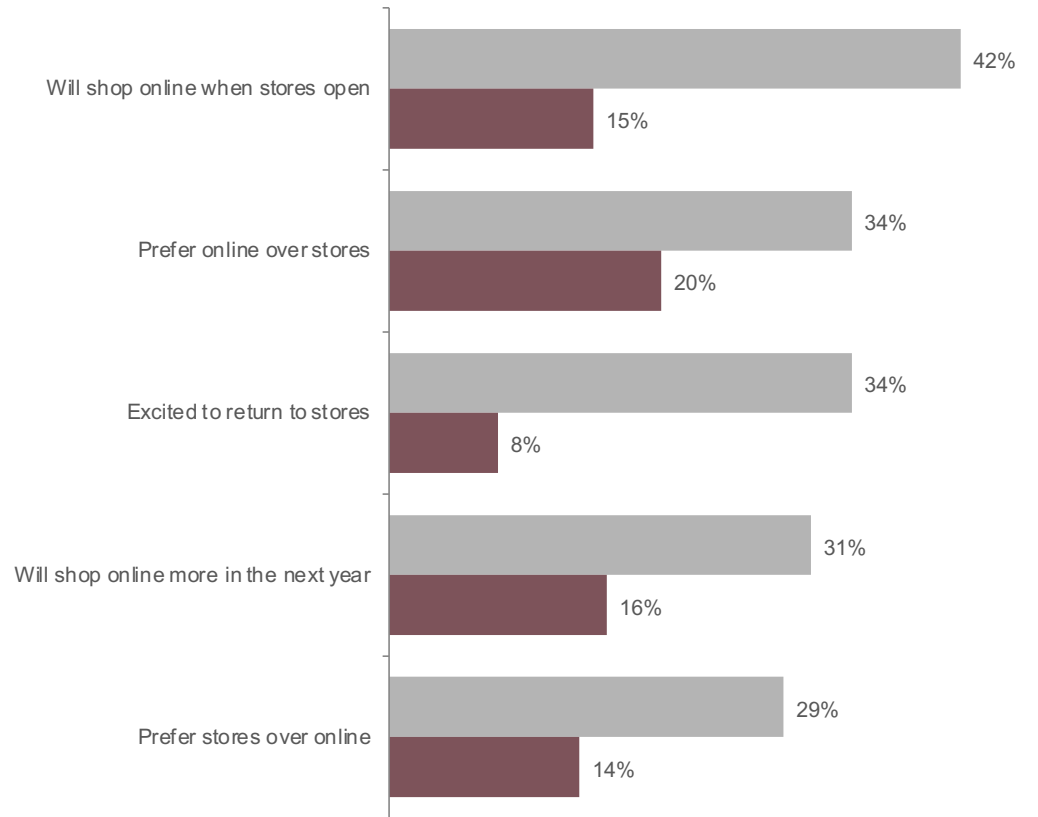
## Post-COVID Impact

e-commerce market to witness a drop in the dramatic growth, as retailers open their doors again and consumers get out of their homes.

**However, even with a small drop in percentage growth, we believe the industry will continue to expand as**

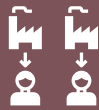
- Post-covid, people from all generations have become very accustomed to the ease of online shopping.
- Given the longer than anticipated time horizon of COVID, the online subscription model that allows for more consumer stickiness has also grown.

## While shoppers are excited to return to stores, they won't abandon online



# Factors Fueling Consolidation Trends in the E-commerce Ecosystem (1/3)

## Direct to customer (D2C) is high-on-demand



- D2C marketing overtook every other strategy during the pandemic, which is a giant shift for brands that traditionally sell through retail.
- As per a recent eMarketer report, D2C sales accounted for \$18bn in total US e-commerce sales in 2020, a 24% jump over 2019.

## Online buying to extend beyond D2C products



- Digital transformation of businesses was the biggest single impact of Covid and with no where to go, consumers moved to online shopping for all their needs.
- Online buying was not limited to the conventional fashion and electronic items, but extended to everything from groceries, furniture and vehicle parts.
- Online buying also extended to B2B commerce.

## Marketplaces to be more popular than e-commerce stores amongst customers



- While almost every business has now started selling online, most of these do not have the required infrastructure and experience to serve the customers as the marketplaces do.
- This coupled with benefits such as quick and free shipping, easy returns and other improved technology features makes marketplaces the go-to place for most consumers.
- Marketplaces have set the bar for consumer convenience very high.

## Omni-channel retailing starting to surge



- Omni-channel retailing is about bringing social, search and point-of-purchase, all in a single funnel.
- It allows brands to increase customer retention as the customer's path is a journey that might start from an online channel and end at a physical store.
- As per v12 data, businesses with Omni-channel strategy achieve 91% more year-over-year customer retention rates as compared to the ones without it.

Integration of market-places, e-commerce brands and traditional retail is the way forward for participants of all sizes in the industry.

## Factors Fueling Consolidation Trends in the E-commerce Ecosystem (2/3)

### Mobile shopping is growing



- 73% of e-commerce sales is projected to be made on mobile devices by the end of 2021.
- Older and Gen Z consumers feel more comfortable with mobile shopping as the trust and convenience increase.
- This is complemented by a whopping 67% young consumers have spent more money online than before the pandemic (Shopify, 2020).

### Technology advancements like AR, image recognition (IR) and voice search to disrupt the industry



- Augmented reality (AR) was predicted by Gartner to be used by more than 100mm customers by 2020.
- MarketWatch estimates the global IR market to hit \$81.9bn by 2026 growing at a CAGR of 19.6% from 2018.
- Consumers now increasingly rely on voice assistants according to Loop Ventures which forecasts 75% of US households will own a smart speaker by 2025.

### Role of analytics in e-commerce will increase multi-fold



- Customer data is the new gold in the world of e-commerce and is projected to continue gaining value as brands focus and collect various metrics on consumer shopping behaviours and use them for more relevant and focused marketing and selling techniques.
- Data points are increasing and therefore analytics are likely to become even more granular as we move further into 2021.

### Integration of social media and video platforms in e-commerce is evolving



- The consumption of social media is projected to increase in 2021 and brands have are heavily leveraging this channel with platforms such as Tik Tok.
- As Gen Z consumers spend hours scrolling on Facebook, Instagram and Tiktok, they are now seeing in-feed shoppable ads with technologies that have much stronger click through rates.

Consolidation between e-commerce companies and technology providers, and within the tech providers themselves, is creating an immense value in the ecosystem.

## Factors Fueling Consolidation Trends in the E-commerce Ecosystem (3/3)

### Sustainability, green consumerism and environmental topics to influence buyers



- According to a Harvard Business Review, 65% of buyers want to make purchases from brands that aim for sustainability, even a higher share of consumers want to see less packaging.
- This has made businesses more aware of the environment with giants such as Amazon taking a pledge towards sustainability and smaller brands following suit.

### International e-commerce is becoming the new normal



- Previously, global conglomerates were the only brands shipping overseas; however, small and medium retailers have now also started selling across the globe.
- Europe is easier to transport goods to and from; with strong logistics and fulfilment centers on both sides of the Atlantic utilizing technologies that make language and pricing easier to translate.
- Also, there has been a shift in the centre of e-commerce's gravity towards the East. The Asia Pacific region has the largest "middle class" market of the world, with the majority (85%) of middle-class population as well as the largest e-commerce demand. This has compelled companies to begin more seriously exploring opportunities in the APAC regions.

**These factors have created an unprecedented need for companies to expand their geographical presence and cross-border acquisitions looks like the best way out.**

The above factors have fueled consolidation in the e-commerce ecosystem with marked trends

3.

## Key Consolidation Trends

- A Integration of Brands and Market Places with Traditional Retail
- B Fully Integrated E-commerce Service Companies in High Demand
- C Consolidation within Technology Companies is Generating Increased Traction
- D Cross Border Transactions are Gaining Popularity





## Multiple Growth Avenues for New E-commerce Product Companies

The Pandemic has fueled these new independent product companies in more ways than just the consolidation.

- The pandemic has spurred global panic buying as consumers rushed to markets to stockpile essential items that created massive shortages forcing consumers to try new, unknown brands.
- This, combined with the lower price points helped to fuel the growth of both new independent product companies with an e-commerce only market approach and private label products for major big box retailers like Amazon, Walmart and Target.
- This also helps mitigate the risk of potential supply chain disruptions in the future and thus presents opportunities for consolidation between online e-commerce companies and offline producers.

### Opening multiple growth avenues for the future



**Continued Growth**



**Partnership with a Private  
Equity Fund**



**Cash Out - Take Advantage of  
the High Valuation Environment**



**Sell to a Strategic Buyer and  
Continue the Growth story**

# Increase in the Integration of Brands and Market Places with Traditional Retail

There has been an over arching shift towards D2C sales which has led to a rise in partnerships and collaborations between businesses, particularly those with online platforms.

## D2C Strategy as a Key Driver of Consolidation



Larger e-commerce brands and marketplaces see opportunities to build market share through acquisition of more traditional brands and retailers resulting in



Higher Brand Recognition



Wider Product Selection



Larger Customer Base

## Recent Related Examples

Mar 2021

**RUMBLE ON**

Acquired



\$626.3 Mn

Combines an e-commerce company plus distribution of powersports vehicles through traditional brick & mortar powersport retailers

Feb 2021

**OSOS**  
discover fashion online

Acquired

**TOP SHOP**

\$405.0 Mn

A strategic move to secure control on supply chains and increase market share

Jan 2021

**THE HUT GROUP\***

Acquired



\$305.0 Mn

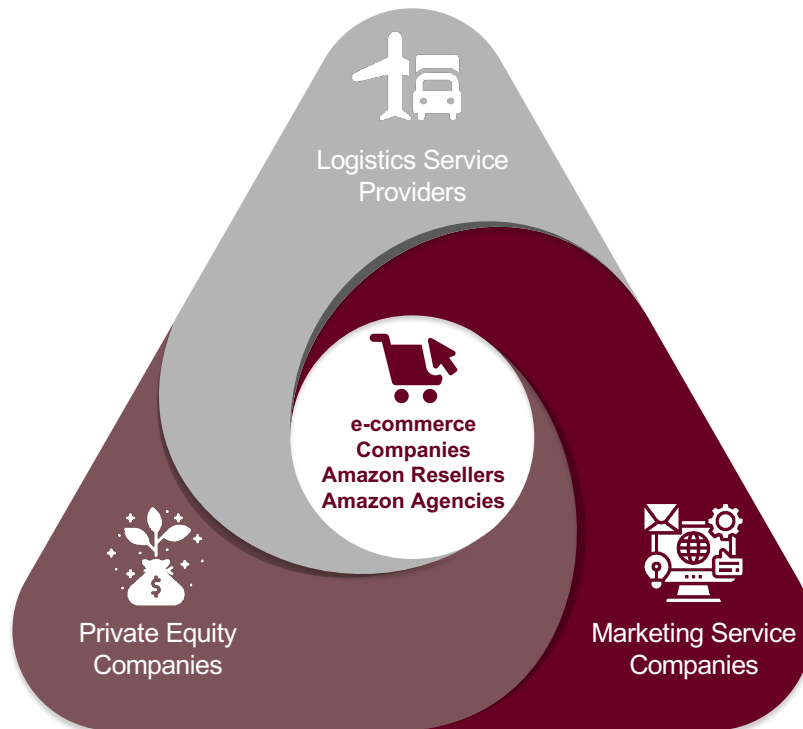
An acquisition to expand global market reach

Larger brands and marketplaces are realizing economic growth through acquisition of newer, smaller D2C product companies with better track records and experience of reaching customers through e-commerce channels.

## Fully Integrated E-commerce Service Companies in High Demand

Although some large retailers have become better at e-commerce, the service levels are still quite low

With this opportunity, traditional Amazon resellers have thus transformed into full-service e-commerce service companies with expertise across marketplaces and industries



Traditional logistics fulfillment centers that service e-commerce fulfillment needs are also looking to expand their presence in order to meet the increased demands.

**FedEx** announced acquisition of **SHOPRUNNER** in an effort to expand its e-commerce capabilities.

Marketing service providers are consolidating with e-commerce targets with good client base and with Amazon resellers and agencies, to create fully integrate e-commerce service companies.

**IMC** Acquisition of, **stackcommerce** the Venice based e-commerce and content platform in Feb 2021, for digital publishers and influencers will further improve IMC's media ecosystem.

Private equities are actively investing in such targets to enable the creation of end-to-end service providers. Such investments are also anticipated to yield higher growth returns for the investors

**TRILANTIC CAPITAL PARTNERS** Acquisition of **ORVA SHOES** was a strategic move by Trilantic North America to accelerate it growth initiatives in the e-commerce space.

# Consolidation within E-commerce Related Technology Companies is Expanding

Given the rapid market changes, there is increasing traction within e-commerce related technology providers.

E-commerce players and service providers are strengthening their tech capabilities by acquiring technology firms in the fields of data analytics, digital transformation, logistics/inventory management solutions and other SaaS services.



1. Infrastructure as a Service



2. Data Analytics



3. Digital Transformation



4. Livestreaming



5. Logistics Software



## 1. Infrastructure as a Service

- Mamenta, an emerging e-commerce platform with connections with multi-channel commerce networks in over 250 marketplaces and 7-+ countries.
- This is a prime example of Infrastructure as a Service (IaaS) that brands are utilizing to expand their reach.



## 2. Data Analytics

- Power Digital Marketing acquired DataQ, the premier customer and targeting analytics tool.
- Fueled by proprietary algorithms and advanced extract, transform, and load (ETL) technology, DataQ helps clients maximize the lifetime value of their customer base through in-depth insights.
- Medallia, the leader in experience management recently acquired Sense360, the next generation consumer insights platform that answers pressing questions such as what is driving traffic, what are the growth opportunities in a specific market and which competitors are gaining share and why.

 Power

DataQ

Medallia

 sense360

## Consolidation within E-commerce Related Technology Companies is Expanding



### 3. Digital Transformation

- Infogain, a leader in experience-led digital transformation, has acquired Absolutdata, an AI-powered data analytics company, in order to meet the demand of digital transformation during the pandemic.
- Other companies such as KERV Interactive who offer and dramatically higher ROI as media campaigns run on their interactive video platform, giving both media buyers and brands over 15 additional data points to then utilize in real time to improve both current and future campaigns.
- "Digital transformation was underway before the pandemic, but COVID-19 accelerated it as global enterprises leverage AI and analytics on advanced platforms to manage change and drive growth" said Dr. Anil Kaul, PhD, Absolutdata's CEO and Co-Founder. (Hospitalitytech.com)



### 4. Livestreaming

- Livestreaming e-commerce is beginning to play a bigger role in online shopping as brands and e-commerce companies are tapping popular platforms like Livestream and TikTok
- Tiktok's recent partnership with Teespring will soon allow content creators to sell products directly within the app.
- With the livestreaming e-commerce already being valued at \$60bn in China, e-commerce giants like Tmall and JD.com have just begun their own livestreaming e-commerce platforms.
- Other companies such as AndLux have been livestreaming luxury items from the US into China, very successfully.



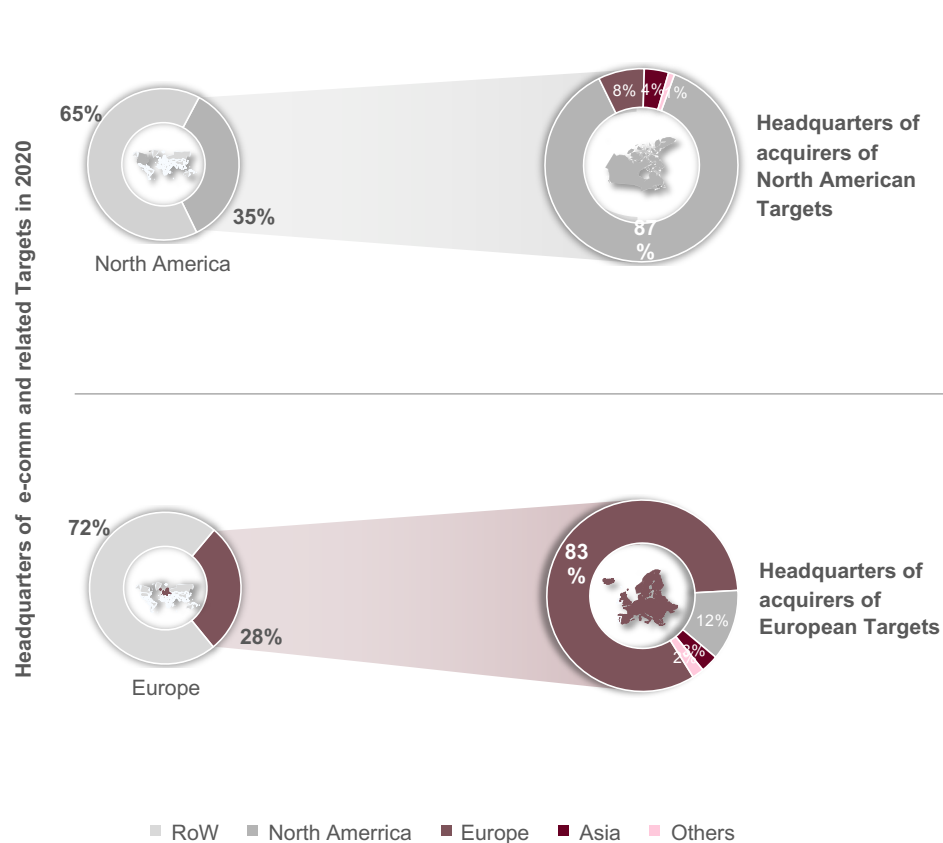
### 5. Logistics Software

- As an integral supporting function of the e-commerce industry, logistics is another sector with promising M&A potential in 2021.
- Logistics software is also getting increased attention as logistics companies continue to improve their operations fueled by the increase in pandemic driven shipping activities.
- Hudson Hill Capital recently acquired a majority stake in InXpress Holdings Ltd. a software provider that helps businesses to improve logistics functions.
- In addition to logistic technology and service companies, the traditional logistics fulfillment centers that service e-commerce fulfillment needs are also looking to expand their presence in order to meet the increased demands.
- Amware Fulfillment's acquisition of Moulton Logistics -- expanding their network with 15 additional facilities -- is a prime example



## Cross Border Transactions are Gaining Popularity

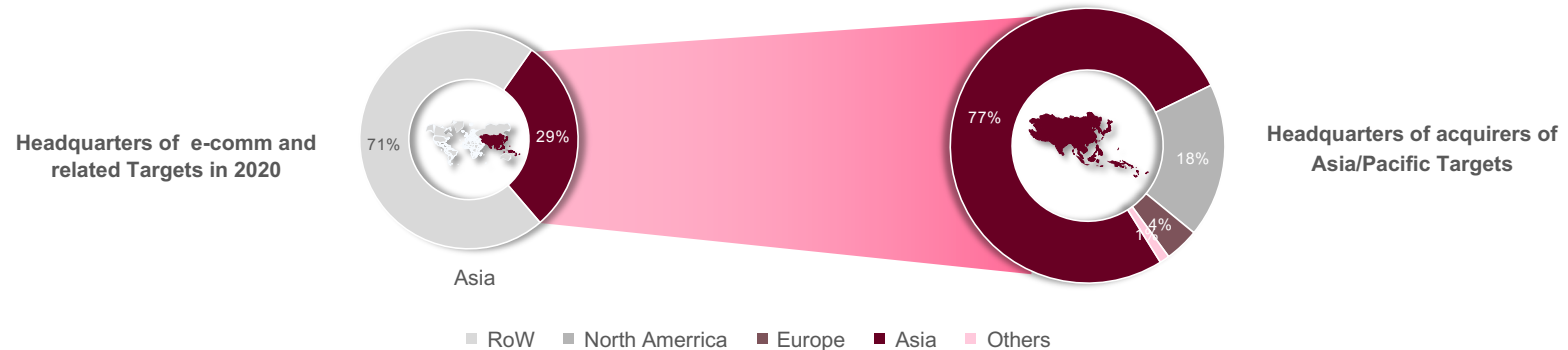
Globalization has made it easier for brands to expand into foreign territories



- North America and Europe together made up for c. 65% of all e-commerce related transactions since the beginning of 2020. With the increasing desire of companies to tap global markets, these regions witnessed a significant investment from companies outside their borders.
- Marquee transactions like Asos' acquisition of Topshop and THG's acquisition of Dermstore are prime examples of European brands, retailers, e-commerce companies and digital agencies taking early and speedy actions on international expansion post COVID.
- Vice versa, many US brands are looking to increase their market presence in Europe.
- Adjust GmbH, a German mobile application tracking and analytics company, was acquired by AppLovin Corporation from California to bolster its analytics offerings and tap the global customer base of Adjust.
- Snap is a classic example of going overseas with acquisitions of European e-commerce technology companies Fit Analytics, a data platform for connecting clothing to customers, and Ariel Ai, a technology provider for enabling AR and experiential retail.
- London based and NYSE listed luxury online marketplace Farfetch saw its fortunes turn around amid the online retail boom accelerated by the pandemic and is now in final conversations to receive \$600mn investment from the Chinese giant, Alibaba, in one of the most high-profile luxury e-commerce deal.

## Cross Border Transactions are Gaining Popularity (Cont'd)

Globalization has made it easier for brands to expand into foreign territories



- Asia, especially China, with a population of 400 million middle class and growing number of younger and sophisticated shoppers, is the most attractive marketplace for almost all brands. As a result, close to one-fourth of acquisitions of e-commerce related targets, made in Asia, were from foreign players across the globe.
- However, for most western brands with little or no knowledge of Chinese consumer shopping habits and the e-commerce environment, the market entry becomes a challenging task. While the speed to market is of a prime importance, the need to acquire local expertise should remain a top focus for brands' China market entry strategy.
- M&A is imminent and provides the right solution. As an example, we are seeing increased level of interests from western brands wanting to invest, partner up, or acquire TMall Partners in China.
- Eyeing the rapidly growing Asian market, Accenture Interactive, a New York based marketing service provider, acquired Businet Systems from Tokyo that develops e-commerce systems and solutions for apparel stores. Colorado based NewAge followed suit with the acquisition of Japanese e-commerce site Aliven.

Although navigation beyond borders has its own challenges, it has helped both the large and medium retailers to sell across the world with just the flip of a switch.

**4.**

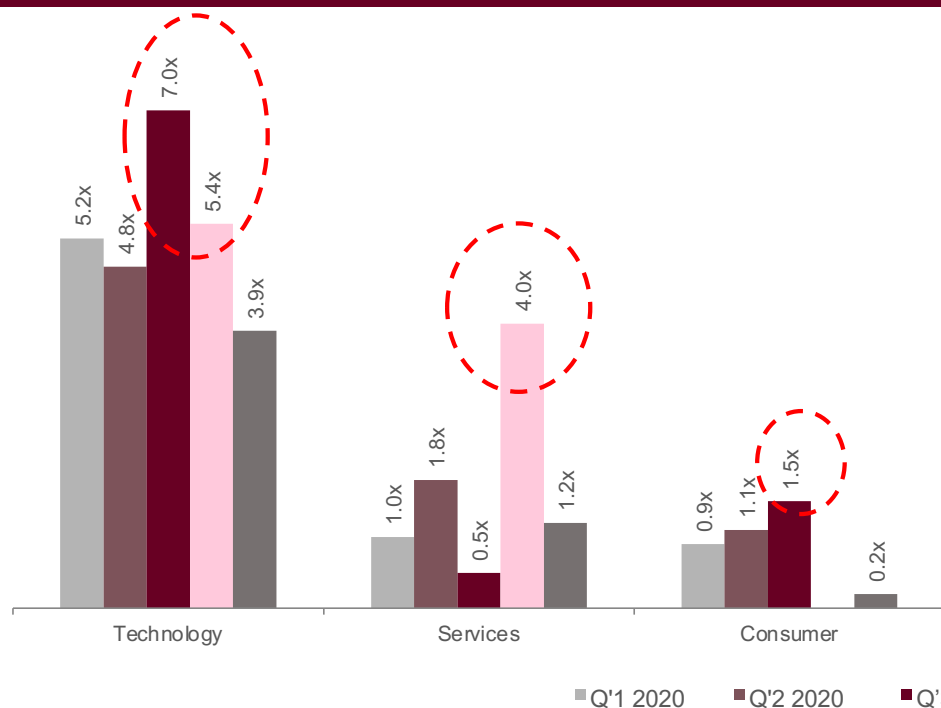
## **Valuation and the Way Forward**



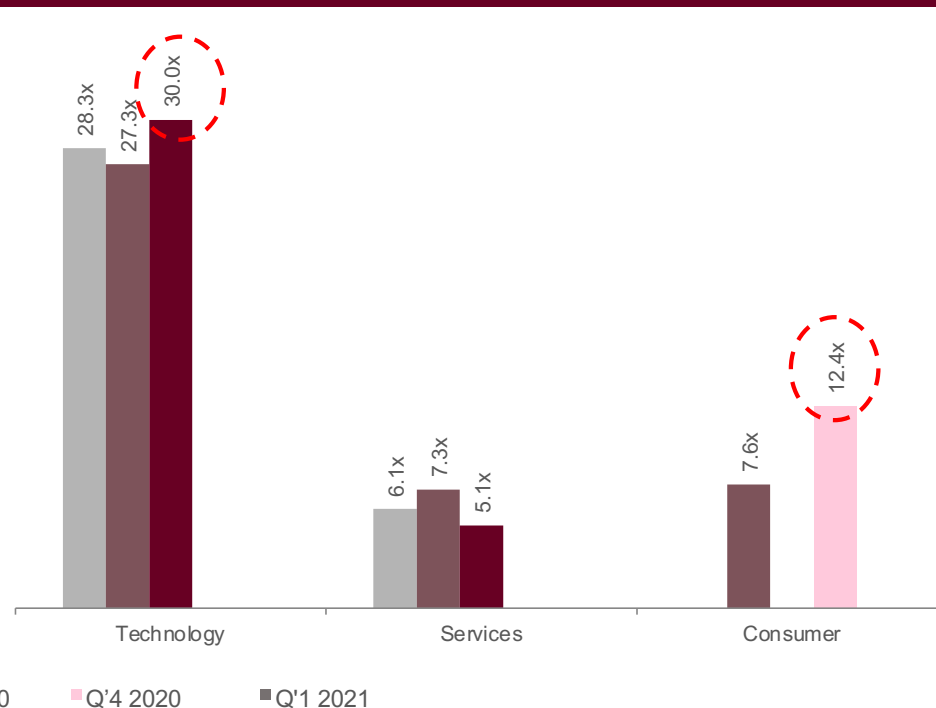


# Companies Across the E-commerce Ecosystem Have Been Sold at Highest Premiums in the Second Half of 2020

Mean EV/Revenue Multiples



Mean EV/EBITDA Multiples



- While technology related e-commerce companies are valued the highest, service providers including logistics solutions providers and marketing companies are selling at par with the e-commerce platforms globally.
- There has been a visible shift in the valuations with revenue and EBITDA multiples peaking in the second half of 2020, concurrent with the peak of the pandemic's impact on consumer behavior. While the valuations have dwindled a bit with the onset of 2021, the environment for the entire e-commerce ecosystem still remains highly conducive for consolidation.

# Outlook for Further Consolidation Seems Positive

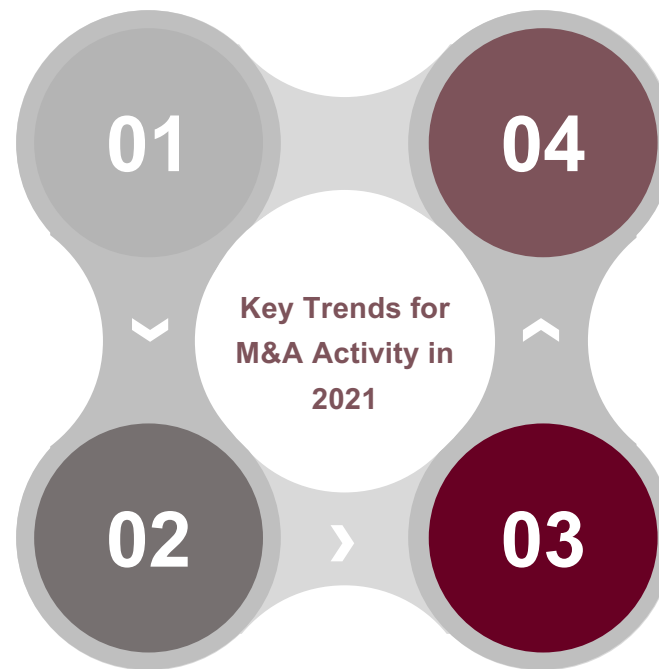
**M&A activity among consumer markets companies over the past six months has evolved significantly, offering a preview of how deal making trends are likely to play out in 2021**

## *High rate of consolidation amongst brick-and-mortar retailers*

M&A activity in 2021 to include further distressed M&A transactions and consolidation, particularly amongst brick-and-mortar non-food retailers (notably fashion apparel and department stores).

## *M&A opportunities in logistics companies and related technologies should continue*

Although we are nearing the end of the pandemic and markets heading back to normal levels, we predict that with improved efficiency from logistics, online shopping habits are here to stay.



## *We believe the home furnishings via eCommerce will emerge as one of the next promising space*

As global trends continue to show consumers spending more time at home, certain pockets of retail, such as home improvements, have benefitted from a shift in consumer focus towards home furnishings which continues to benefit e-commerce giants.

## *E-commerce related M&A activities in Europe may see a huge boost in 2021*

Unlike in the US, Amazon occupies only around 9% of total online retail sales in Europe, leaving many alternative channels for brands to work with. This may give e-commerce players and brands ample opportunities to access the untapped market

**We believe 2021 will see a surge in M&A activities across all sectors, especially in the e-commerce space globally. This is a strategic time for not only brands, but also digital agencies, e-commerce platforms, e-commerce tech companies and even private equities to be actively exploring M&A opportunities.**

## Communication Notice

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## Our Vision

*We are committed to changing the narrative of M&A and investment banking, by expanding its clientele and instilling a culture that demands the highest level of integrity, openness and ethics. We are determined to modernize an industry by stimulating growth in society through business, conscious capitalism and the human journey.*

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