

Technology

E-commerce sector overview

Key market drivers

In 2019, the disclosed deal value within the e-commerce sector increased to \$2.8 billion from \$1.3 billion one year prior, or an increase of more than 115%, while the number of U.S. e-commerce transactions was flat vs. 2018. The volume of deals increased across most sectors with home goods, food delivery and apparel topping the list as buyers continued to focus on top-line growth, channel expertise and / or customer acquisition opportunities. Disclosed deals under \$100 million accounted for more than 50% of total deals. Strategic acquirers drove the majority of M&A activity in 2019, benefiting in part from historically high equity market valuations. Financial sponsors continued to play a critical role due to the abundance of capital available for deployment in addition to a variety of sectors ripe for leveraged “buy-and-build” strategies.



Shane McDaniel
Managing Director
Investment Banking

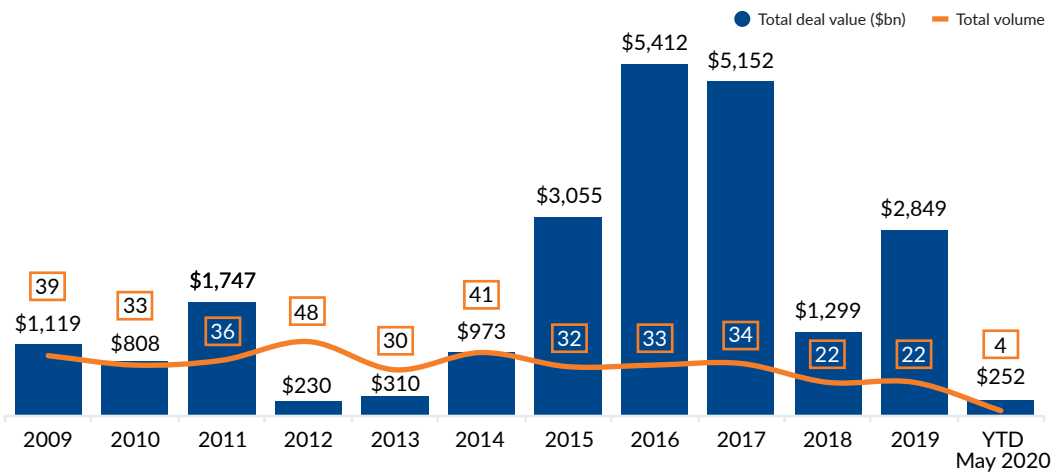


Eric Markin
Vice President
Investment Banking



Steven Markowitz
Associate
Investment Banking

CHART 1: U.S. E-COMMERCE M&A VOLUME



Note: Deal value reflects financial terms for disclosed deals only. Source: 451Research.



ACCELERATING SHIFT TO ONLINE RETAIL

Even before taking into account the impact of COVID-19 the line between physical and digital commerce had been blurring. E-commerce has continued to be the most rapidly expanding segment of overall retail and its prominence will only expand further as global economy recovers. Worldwide e-commerce is expected to nearly double from \$3.5 trillion in 2019 to more than \$6.5 trillion by 2023 while e-commerce's share of total global retail sales equates to a still modest 14.1% though is expected to increase 2% per year through 2023.



EXPANSION OF B2B AND B2B2C

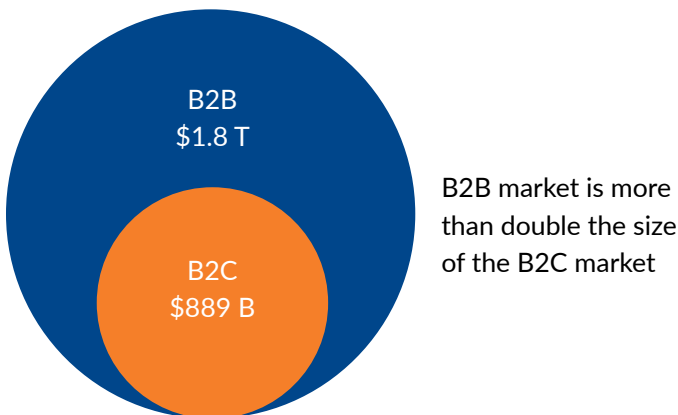
While e-commerce is most often associated with B2C, a very large and rapidly growing market segment is B2B e-commerce. Business buyers accustomed to the convenience of online shopping in their personal lives are increasingly using online sources to meet their professional procurement needs. There is also increasing evidence that B2B2C is a powerful go-to-market strategy that is widely applicable to sell products and services across a wide range of industries. Online marketplaces will continue to appeal to B2B sellers and customers in the second half of 2020 as businesses recover from the global pandemic. U.S. B2B e-commerce sales were \$889 billion in 2017 and are projected to grow at a 10% CAGR to \$1.8 trillion by 2023.



OPTIMIZED E-COMMERCE BUSINESS MODELS

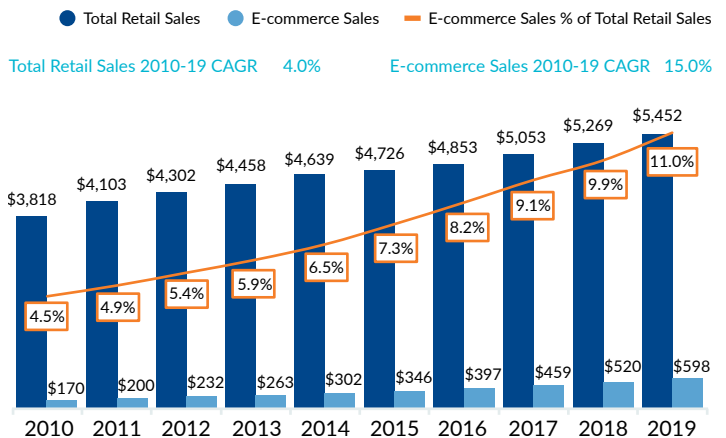
The most successful e-commerce companies have continued to optimize their business operations and marketing technology capabilities. Key performance indicators (KPIs) for most e-commerce business models continue to be driven primarily by optimizing customer acquisition costs and marketing spend and increasing custom retention in order to maximize overall customer life time value. The rise of product and marketplace specialization and subscription-based e-commerce models has largely replaced sites once reliant on flash sales and constant discounting. E-commerce players across the spectrum increasingly experiment with the right mix and match of paid strategies with non-paid strategies to drive top line growth with investments in digital marketing, and there continues to be a heavy reliance on online marketing channels and influencers on dominant social media platforms including Facebook and Instagram.

CHART 2: B2B MARKET OPPORTUNITY



Source: Gartner.

CHART 3: E-COMMERCE SALES AS A % OF TOTAL RETAIL SALES



Source: U.S. Department of Commerce.

Notable sector trends and patterns



ATTRACTIVE M&A DYNAMICS

Brick-and-mortar retailers continue to seek e-commerce platforms, examples include PetSmart's acquisition of Chewy.com and Walmart's acquisition of Jet.com. Additionally, strategic M&A is motivated by buyers seeking to "break the mold" and bring talent and capabilities in-house along with "buy vs. build" investment decisions for curation, content and technologies. Recent transactions were also driven by horizontal (category / product expansion) and vertical (direct-to-consumer) expansion strategies. E-commerce companies capturing underlying consumer data are very attractive to acquirers desiring to better understand end user demographics.



"AMAZON EFFECT"

Amazon's U.S. gross merchandise sales will contribute nearly half of all U.S. e-commerce sales by 2022, up from an estimated 43% in 2019 and 28% in 2015. As a result, e-commerce providers have been under ever-increasing pressure to match Amazon's speed, efficiency and substantial scale. Amazon's expertise in complex supply chain logistics and competitive advantage in data collection creates significant barriers to entry and enables further expansion into major sectors of the broader economy. Recent examples include groceries (Whole Foods), healthcare (PillPack), IT infrastructure (AWS), and financial services with small business lending and payments solutions.



DIRECT-TO-CONSUMER ("DTC")

With 16% of all retail sales expected to happen online in 2020, manufacturers and traditional brands are increasingly bypassing retail partners and selling DTC. Given that ~57% of consumer-packaged goods companies report exploring DTC capabilities to take on competition from retailers, many recent DTC initiatives were developed internally or acquired. Notable recent initiatives include Target's launch of Good & Gather and Everspring private label brands, Unilever's acquisition of Dollar Shave Club and P&G's acquisition of Native and Walker & Company.

TABLE 1: SELECT NOTABLE E-COMMERCE DEALS

Date	Acquirer	Target	Commentary
Jul-19	 Etsy	 Reverb	<ul style="list-style-type: none"> Provides an online marketplace for new, used and vintage music gear Enterprise Value of \$275 million and implied revenue multiple of approximately 7.8x
May-19	 Unilever	 graze	<ul style="list-style-type: none"> Offers a variety of snacks with no artificial ingredients and started out as a snack box delivery service Enterprise Value of \$193 million and implied revenue multiple of approximately 1.9x
Oct-18	 Hello FRESH	 chefs plate	<ul style="list-style-type: none"> Provides users with fresh, pre-portioned ingredients and chef-inspired recipes Enterprise Value of \$80 million and implied revenue multiple of approximately 2.0x
Sep-18	 GRUBHUB™	 Tapingo	<ul style="list-style-type: none"> Provides online and mobile platforms for food ordering and delivery service Enterprise Value of \$150 million and implied revenue multiple of approximately 2.0x
May-18	 amazon	 Pill Pack	<ul style="list-style-type: none"> Acts as an online pharmacy that delivers medication to consumers' homes Enterprise Value of \$753 million and implied revenue multiple of approximately 7.5x
May-18	 Kroger	 HOME CHEF	<ul style="list-style-type: none"> Offers meal kit and food delivery subscription-services Enterprise Value of \$700 million and implied revenue multiple of approximately 2.8x
Aug-17	 GRUBHUB™	 EAT24	<ul style="list-style-type: none"> Provides a marketplace for ordering food online Enterprise Value of \$287 million and implied revenue multiple of approximately 5.3x
Jun-17	 Walmart <small>Save money. Live better.</small>	BONOBOS	<ul style="list-style-type: none"> E-commerce driven clothing brand focused on delivering great fit and excellent customer service Enterprise Value of \$310 million and implied revenue multiple of approximately 2.1x
Jul-16	 Unilever	 DOLLAR SHAVE CLUB	<ul style="list-style-type: none"> Offers men's grooming products direct to consumer Enterprise Value of \$1.0 billion and implied revenue multiple of approximately 6.6x
Nov-15	 Expedia	 HomeAway	<ul style="list-style-type: none"> Operates an online vacation rental property marketplace that enables property owners and managers to market properties for rental to vacation travelers Enterprise Value of \$3.1 billion and implied revenue multiple of approximately 6.4x
Jul-14	NORDSTROM	TRUNK CLUB	<ul style="list-style-type: none"> Offers personalized mid to high-end men's and women's clothing service Enterprise Value of \$350 million and implied revenue multiple of approximately 3.5x

Sources: FactSet, CrunchBase, Mesirow estimates. Mesirow Financial did not represent any of the acquirers or targets in connection with the transactions noted on this page and is not currently representing any of the listed acquirers or targets.

Sector spotlight: Better-for-you / eco-friendly e-commerce

Changing consumer behaviors and generational shifts are greatly impacting how e-commerce businesses operate and curate specific product offerings. From 2013 to 2018, half of CPG growth came from products marketed with a sustainability claim. Furthermore, in 2018, sustainability-marketed products delivered nearly \$114 billion revenue, 29% increase vs. 2013.

Where ingredients are sourced and how a product is manufactured, shipped and packaged are becoming important considerations for consumers. Recent surveys indicate that approximately 88% of consumers across the U.S. and U.K. want companies to improve their environmental and social footprint. Additionally, 48% of U.S. consumers say they would change their consumption habits to reduce their impact on the environment.














CPG companies are responding accordingly and implementing sustainability initiatives. Recent examples include Ecolab's water conservation initiative and Burberry, H&M and Hugo Boss pledged to reduce greenhouse gas emissions. Notably, Unilever pledged to halve tons of plastic utilized in its product packaging by 2025 via reusable containers.

We expect that increased eco-conscious consumer attitude and awareness will continue to have a large impact on CPG companies and products trends and continue to be a prominent category of e-commerce M&A transactions in the future.

TABLE 2: SELECT NOTABLE BETTER-FOR-YOU / ECO-FRIENDLY E-COMMERCE M&A ACTIVITY

Date	Acquirer	Target	Commentary
Nov-19	 Advent International	OLAPLEX	<ul style="list-style-type: none"> Prestige and professional hair care brand with patented technology that protects and repairs hair from damage Enterprise Value of \$1.0 billion and implied revenue multiple of approximately 10.0x
Oct-19	 HISEIDO	 DRUNK ELEPHANT™	<ul style="list-style-type: none"> Skincare brand and a recognized expert in developing clean compatible and effective products Enterprise Value of \$845 million and implied revenue multiple of approximately 8.5x
Jun-19	 Unilever	 TATCHA	<ul style="list-style-type: none"> Direct-to-consumer retailer of skincare and make-up products Enterprise Value of \$500 million and implied revenue multiple of approximately 5.0x
Nov-17	 P&G	NATIVE	<ul style="list-style-type: none"> Offers natural personal care products including deodorant, body wash and toothpaste direct-to-consumer Enterprise Value of \$100 million and implied revenue multiple of approximately 4.0x
Sep-17	 scJohnson <small>A Scotch company that's not for a Scotch world</small>	method	<ul style="list-style-type: none"> Pioneer of premium planet-friendly and design-driven home, laundry and personal care products Financial terms undisclosed
Sep-16	 Unilever	seventh generation	<ul style="list-style-type: none"> Distributor of a comprehensive product portfolio covering the "natural" category in grocery, mass merchandise and e-commerce channels Enterprise Value of \$700 million and implied revenue multiple of approximately 3.5x
Mar-16	 Helen of Troy	 Hydro Flask	<ul style="list-style-type: none"> Designer, distributor and marketer of high performance insulated hydration vessels for active lifestyles Enterprise Value of \$210 million and implied revenue multiple of approximately 3.8x

TABLE 3: SELECT NOTABLE BETTER-FOR-YOU / ECO-FRIENDLY E-COMMERCE PRIVATE PLACEMENTS

Date	Acquirer	Target	Commentary
Sep-19	 GENERAL ATLANTIC  GLYNN CAPITAL MANAGEMENT	 Grove COLLABORATIVE	<ul style="list-style-type: none"> Delivers eco-friendly home essentials, including household cleaning, personal care, baby, kid and pet products with its subscription service \$150 million Series D funding round; Post money Enterprise Value of \$1.0 billion and implied revenue multiple of 3.3x
Mar-19	 FRANKLIN TEMPLETON INVESTMENTS  BainCapital		<ul style="list-style-type: none"> Provides an online designer dress and accessories rental service \$125 million Series F funding round; Post money Enterprise Value of \$1.0 billion and implied revenue multiple of 10.0x
Mar-19	SEQUOIA 	 Glossier	<ul style="list-style-type: none"> Offers a collection of skin care and make-up products \$100 million Series D funding round; Post money Enterprise Value of \$1.2 billion and implied revenue multiple of 12.0x
Jan-19	 KLEINER PERKINS	fabfitfun	<ul style="list-style-type: none"> Offers a monthly-subscription box service that contain health and beauty products \$80 million Series A funding round; Post money Enterprise Value of \$1.0 billion and implied revenue multiple of 3.3x
Jan-19	 MAVERICK  Redpoint	hims	<ul style="list-style-type: none"> Sells sexual wellness products, skin care and hair loss treatments directly to consumers \$100 million Series C funding round; Post money Enterprise Value of \$1.1 billion and implied revenue multiple of 11.0x
Oct-18	 TRowePrice INVEST WITH CONFIDENCE	allbirds	<ul style="list-style-type: none"> Sells shoes that are designed for comfort and style \$50 million Series C funding round; Post money Enterprise Value of \$1.4 billion and implied revenue multiple of 8.8x
Mar-18	 NEA  LightSpeed felix	goop	<ul style="list-style-type: none"> Lifestyle brand providing digital content and commerce \$50 million Series C funding round; Post money Enterprise Value of \$250 million and implied revenue multiple of 2.5x
Mar-18	 TRowePrice INVEST WITH CONFIDENCE	WARBY PARKER	<ul style="list-style-type: none"> Acts as an online retailer of prescription glasses and sunglasses \$75 million Series E funding round; Post money Enterprise Value of \$1.8 billion and implied revenue multiple of 5.3x
Jan-18		SUN BASKET	<ul style="list-style-type: none"> Offers a subscription meal delivery service that ships fresh organic and sustainable ingredients \$58 million Series D funding round; Post money Enterprise Value of \$500 million and implied revenue multiple of 1.9x
Dec-17	 ALLIANCE TEMASEK HOLDINGS	HARRY'S	<ul style="list-style-type: none"> Offers a subscription service that provides men's grooming products \$112 million Series D funding round; Post money Enterprise Value of \$862 million and implied revenue multiple of 4.3x
Sep-15	 TPG  SHERPA CAPITAL	ipsy	<ul style="list-style-type: none"> Offers monthly subscription service that provides a makeup bag of cosmetic samples \$100 million Series B funding round; Post money Enterprise Value of \$800 million and implied revenue multiple of 5.3x

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Outlook

Although concerns over a slow recovery will likely subdue overall near-term M&A activity, the technology sector and e-commerce sub-sector in particular will continue to remain an attractive area of investment. We believe that COVID-19 may usher in a longer-term trend of how consumers and businesses transact, accelerating the transition away from physical retail stores to predominately online interactions amplifying interest in e-commerce assets. Mesirow remains optimistic that M&A will continue to become an increasingly important driver of value and play an important role in tech companies' strategies in the years ahead. As market conditions continue to improve, Mesirow is well-positioned to help advise e-commerce companies considering a transaction or securing capital funding from a variety of strategic and financial investors.

Dedicated advisor to the technology sector

Mesirow Investment Banking is consistently focused on elevating the experience for our clients. With extensive sector-specific expertise and deep long-standing relationships, our dedicated industrial technology team has a proven track record of completing highly tailored and successful transactions. Our highest priority is helping individuals and organizations achieve their financial and strategic goals.

Contact Us

Shane McDaniel

312.595.6505

smcdaniel@mesirowfinancial.com

Eric Markin

312.595.7887

edmarkin@mesirowfinancial.com

Steven Markowitz

312.595.6554

smarkowitz@mesirowfinancial.com

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