

Industry Update: E-Commerce



Industry Overview

The e-commerce industry has been growing rapidly at a CAGR of 14% since 2016 with total sales reaching \$869B in 2021. E-commerce sales in 2022 are expected to increase at a similar pace of 13% to a total of approximately \$970B. Going forward, growth is expected to continue a more moderated, yet sustainable trajectory, with projected annual sales growth of 8.3% from 2023 to 2026.

Post-pandemic inflationary pressures, broken supply chains, and central bank interest rate hikes are expected to result in a pullback in consumer spending, which remains the biggest threat to the industry. However, despite these macroeconomic headwinds, several key trends will continue to drive growth in this segment.

- » COVID-19 forced consumers to adopt new online shopping habits that are largely expected to stick as many consumers have become accustomed to this digital-first approach to consumption.
- » Younger, digitally native consumer groups, including Gen Z, Millennials, and Gen Alpha, will comprise 60% of the US population by 2026 and continue to drive e-commerce sales.
- » Traditional retailers coping with staffing challenges and inventory shortages are leveraging digital technology and e-commerce to create better shopping experiences for their customers.

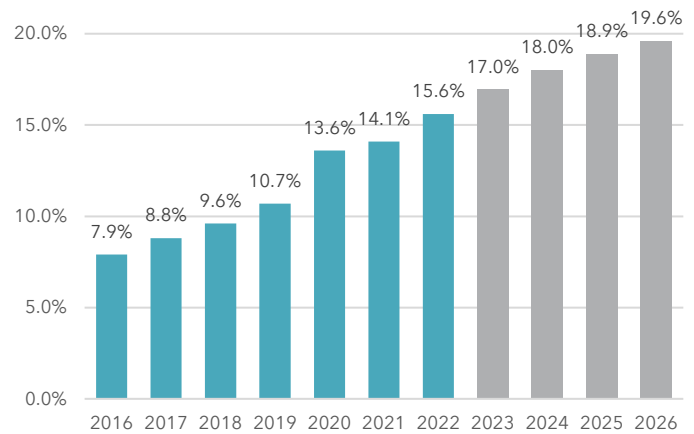
US Digitally Native Consumer Groups, 2026

The total number of digitally native consumers will grow substantially from **182M** in 2021 to **207M** in 2026, representing a 14% increase.

- Gen Alpha** » 19.2% of population » **66.4M** people
- Gen Z** » 17.8% of population » **61.8M** people
- Millennials** » 22.7% of population » **78.7M** people

E-Commerce Share of Total Retail Sales

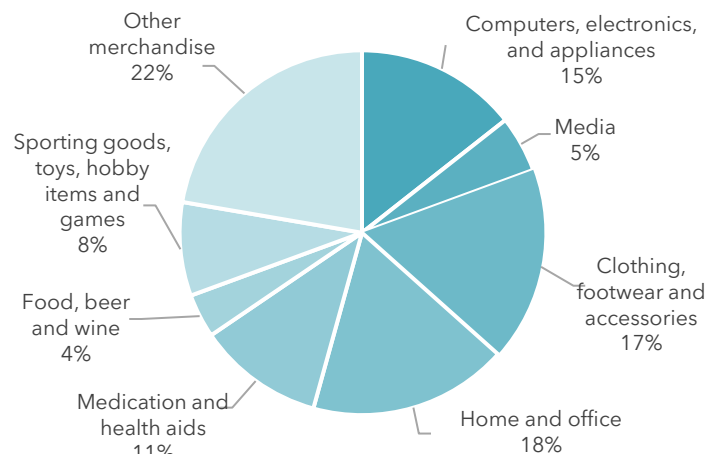
Prompted by consumer adoption of online shopping and retailers' efforts to improve the online experience, e-commerce growth is expected to outpace brick-and-mortar retail growth over the next few years. As a result, e-commerce is expected to make up nearly one-fifth of all retail sales by 2026, up from 15.6% in 2022.



Sources: US Census Bureau, Annual/Monthly Retail Trade Survey, Bureau of Economic Analysis; Mintel

US E-Commerce Market Share by Category

While overall sales have grown considerably, e-commerce penetration varies widely across market segments, which is primarily influenced by regulatory and logistics factors.



Source: IBISWorld

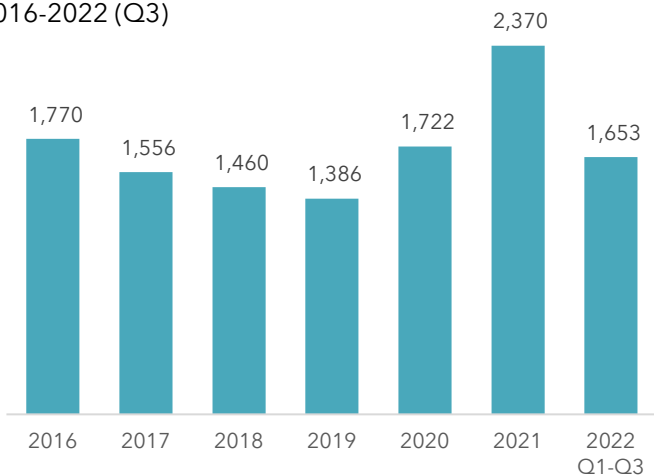
Continued Investor Interest

Our outlook for e-commerce mergers and acquisitions (M&A) volume remains bullish despite macroeconomic headwinds as we continue to see strong interest from both buyers and sellers. Transaction volumes remain robust with 1,653 transactions occurring through September 2022. Additionally, over the last three years, there have been 3,879 active acquirers, and 12% of these acquirers have made multiple acquisitions.

Private equity firms in particular have been highly active building e-commerce platforms and consolidating the highly fragmented target-rich market. Attractive dynamics include:

- » The need for retailers to holistically improve the online shopping experience and enhance capabilities in areas such as logistics and technology infrastructure through targeted add-on acquisitions.
- » Digitally savvy generations fueling substantial demand for new shopping platforms on social media as social commerce provides customized shopping experiences that entertain and engage online shoppers.
- » The accelerated and aggressive adoption of omni-channel distribution strategies to boost scale, improve operating efficiency, and create synergies by retailers to capture more share of wallet.
- » The development of in-house benches of e-commerce professionals at private equity firms as the category matures. The proliferation of firms with true expertise in the space is anticipated to drive competition for high-quality assets among investors and keep deal multiples at or near historic highs.

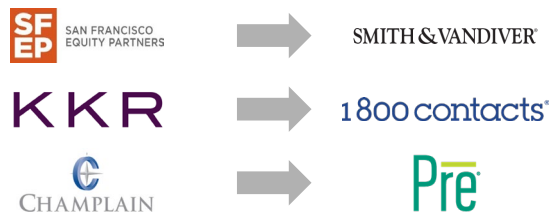
Number of E-Commerce M&A Transactions 2016-2022 (Q3)



Sources: S&P Capital IQ, Hampton Research

Select Private Equity Investments

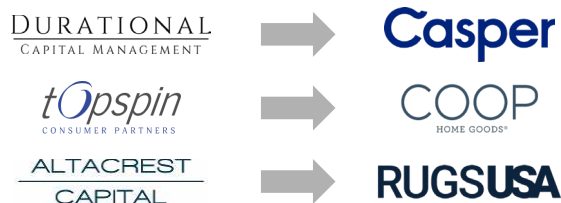
Health, Personal Care & Beauty



Apparel & Accessories



Furniture & Home Furnishings



Cascade Partners Select Transactions



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