



## Mergers & Acquisitions in Online & Specialty Retail Q4 2014 Overview

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## Q4 2014 OVERVIEW

The 2014 holiday season showed strong online and mobile sales. Online shoppers in the US continued to be enticed by competitive pricing and convenience as online retail sales increased 13.9% year-over-year compared to the same period in 2013. The success during the holiday season was largely driven by mobile traffic, which accounted for 45% of all online traffic, according to IBM Digital Analytics. Consumers are clearly becoming more comfortable purchasing online through tablets, computers, and smartphones.

In addition, consumers are utilizing mobile applications to find the best deals across multiple retailers. Traditional brick-and-mortar retailers have been forced to catch up to the convenience and competitive pricing of online shopping. Through 2014, more retailers expanded service offerings with in-store pickup for online orders and faster shipping. Companies, such as Warby Parker, have created showrooms as a view-only storefront, which ships products directly to consumers thereby eliminating the need for inventory and providing a convenient, no-hassle shopping experience. The expanding US economy and increased disposable income led to a strong year in sales for online retailers.

## Online Retail Through 2015

Over the past five years, ecommerce industry revenue has grown at an exceptional rate, outperforming most retail industries, due in part to higher levels of disposable income and increasing Internet traffic volume. Despite the brief recession-induced slowdown in 2009, industry revenue rose at an average annual rate of 10.3% each year to reach \$298 billion in 2014. In addition, average industry profit margins improved from 5.3% in 2009 to 7.1% in 2014.

Several trends will continue to develop in 2015 including:

### 1. Acquisitions of Online Retailers by Traditional Brick-and-Mortar

The acquisitions of Pet360 by PetSmart, and Trunk Club by Nordstrom are the latest examples of traditional retailers pushing to grow a multifaceted shopping experience. Acquisitions will remain a significant piece of many retailers' long-term strategies. Retailers recognize the importance of having a strong online presence to facilitate increased foot traffic to their stores. In addition, technology will play an integral role in allowing retailers to track the purchases of customers online and in-store. Mobile apps have given consumers a new way to shop. According to Google, 84% of smartphone shoppers have used their phones in a physical store to compare prices across multiple sales channels. Retailers will need to innovate new strategies to retain customers in the increasingly competitive retail landscape.

The 2014 M&A market for online retail showed significant activity including the \$759 million acquisition of Bluestream Brands by Capmark Financial Group, and a \$281M acquisition of Vitacost.com by Kroger.

## 2. Allocation of Resources to Inventory Management

The gap between online retail and brick-and-mortar stores will continue to blur. In the past, retailers operated online and physical stores with very little communication between the two divisions. The popularity of mobile devices amongst millennials and baby boomers is driving retailers to heighten cross-channel communication. In 2014, Macy's started to merge its inventory systems between physical, mobile and digital storefronts. Customers will be able to make more informed purchase decisions based on the availability of products through different sales channels.

The integration of online and physical storefronts requires retailers to allocate significant resources towards logistics technology. Logistics technology enables retailers to accurately track inventory and analyze sales and operations metrics across different channels.

## 3. Leverage Social Networks

The rise in popularity of mobile devices and social media has led online retailers to reduce marketing budgets directed towards billboards and other traditional advertising. Instead, online retailers are focused on building a strong online presence through Facebook and Pinterest to showcase new products and directly engage customers. Retailers can target consumers based on age, geographic location, demographic, estimated income level, and educational background.

According to Internet Retailer, the top 500 retailers earned \$3.3 billion from social shopping, up from \$2.62 billion in 2013. However, the increased sales driven by social networks comes at the expense of higher customer acquisition costs. Facebook and other social networks are decreasing the organic reach of social media posts by retailers. As a result, retailers are forced to allocate more advertising dollars for online posts to be seen by target customers.

## Growth Capital – Availability and Purpose

### Availability

2014 was the strongest year in M&A and private equity investments since the global financial crisis. Capital markets are flush with dry powder as investors are eager for attractive investments. The amount of dry powder has increased to an all-time high \$1.2 trillion as of December 2014. Aggregate capital by private equity and venture capital raised in 2014 totals \$495 billion. Strategic investors with strong balance sheets have even more resources to invest.

Prequin, a leading provider of private equity data, states that the majority of investors are seeking to deploy greater levels of capital in 2015. Private equity managers are facing significant external pressure when bidding on assets. The top concerns amongst private equity firms remains to be difficulty sourcing proprietary deals and unrealistic price expectations from sellers.

## Noteworthy Recent Online Retail Transactions

Announced Date	Target	Buyer	Implied EV	Implied EV/Rev	Implied EV/EBITDA
12/31/2014	Murfie, Inc.	NA	NA	NA	NA
12/26/2014	Hit the Mark, Inc.	Jabbar Internet Group; Lionrock Capital; Velos Partners; Rise Capital	NA	NA	NA
12/12/2014	Swap.com, Inc.	Cleantech Invest Oy; Clean Future Fund I	NA	NA	NA
12/3/2014	InboxFitness.com LLC	O2 Media, Inc.	NA	NA	NA
11/20/2014	Ditto Technologies, Inc.	August Capital; National Vision, Inc.	NA	NA	NA
10/31/2014	Mavis Tire Supply Corporation	Penfund; ONCAP; Penfund Capital Fund IV, L.P.	NA	NA	NA
10/30/2014	Minted, LLC	Norwest Venture Partners; Technology Crossover Ventures	NA	NA	NA
10/24/2014	Door to Door Organics, Inc.	Greenmont Capital Partners; Arlon Group LLC; Greenmont Capital Partners II, LP	NA	NA	NA
9/25/2014	OpticsPlanet, Inc.	NA	NA	NA	NA
9/15/2014	CardLab, Inc.	Blackhawk Network Holdings, Inc.	NA	NA	NA
8/27/2014	Modern Everyday, Inc.	LiveDeal, Inc.	\$2.43	0.2x	44.7x
8/25/2014	GameFly, Inc.	Atgames Digital Media Inc.	NA	NA	NA
8/19/2014	Pet360 Inc.	PetSmart, Inc.	\$160.00	NA	NA
8/11/2014	Saatchi Online Inc.	Demand Media, Inc.	\$14.69	4.1x	NA
8/1/2014	Treehouse Brand Stores, LLC	Geeknet, Inc.	\$3.50	NA	NA
7/30/2014	Provide Commerce, Inc.	FTD Companies, Inc.	\$422.31	0.7x	7.5x
7/30/2014	Trunk Club, Inc.	Nordstrom Inc.	\$350.00	NA	NA
7/29/2014	ActiveForever, Inc.	Matrix Group Limited, Inc.	NA	NA	NA
7/15/2014	Gerler & Son, Inc.	Hardy Capital Partners	\$140.00	1.0x	NA
7/2/2014	Vitacost.com, Inc.	The Kroger Co.	\$253.20	0.6x	NA
6/11/2014	Healthy Directions, LLC	Helen of Troy Limited	\$195.94	1.4x	8.0x
6/3/2014	Brookstone Inc.	Shanghai International Group Co., Ltd.; Sanpower Group Co., Ltd.; Sailing Capital Overseas Investment Fund, LP	\$280.21	0.6x	54.1x
5/29/2014	CPO Commerce, Inc.	United Stationers Supply Company	\$40.00	0.5x	NA
4/8/2014	JunkieDog.com, Inc.	NA	\$0.06	0.1x	NA
3/26/2014	Simplexity, LLC	Wal-Mart Stores Inc.	\$10.24	NA	NA
1/13/2014	AutoNationDirect.com, Inc.	Autobytel Inc.	\$10.99	0.4x	4.3x
1/13/2014	ideeli Inc.	Groupon, Inc.	\$43.00	0.4x	NA
































Source: CapitalIQ

## THE MCLEAN GROUP ONLINE & SPECIALTY RETAIL PRACTICE

The McLean Group is a leading independent investment bank that provides mergers and acquisitions (M&A), business valuation and strategic consulting services to middle market businesses. The McLean Group’s Online & Specialty Retail practice is one of the most active M&A practices in the retail industry. Our retail practice has a regular presence at conferences across the country and our bankers have strong connections to active buyers and investors.

Additionally, our M&A advisory and valuation services reflect our comprehensive industry knowledge, extensive transactional successes, commitment to provide senior-level attention to every client engagement, and real-time understanding of industry-specific valuation drivers. Through our commitment to partnering with clients and providing strategic advice throughout every phase of a company’s development, The McLean Group is uniquely positioned to build lasting relationships and contribute measurable value to each client’s long-term success.

### Select Online & Specialty Engagements

 acquired  Purchase Price Allocation 	Taymax Fitness Holdings an Area Developer of  acquired by   	 EST. 1941 Market Intelligence 	 acquired by  A Portfolio Company of:  	 acquired  Purchase Price Allocation 	 Business Valuation 
 Business Valuation 	 Market Intelligence 	 acquired by  	 Business Valuation 	 Market Intelligence 	 Market Intelligence 

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