The retail apocalypse has officially descended on America

Hayley Peterson  ☀ Mar. 21, 2017, 5:25 PM  ⬇️ 1,239,071

Rue21 Said to Ready Bankruptcy Filing as Soon as This Month

a teen clothing chain backed by private equity firm Apex Partners, is preparing to file for bankruptcy, according to people familiar with the matter. A filing could come as soon as this month, said...

Amazon is in talks to buy bankrupt American Apparel

Reuters  ☀ Jan. 4, 2017, 5:23 PM  ⬇️ 10,511
Aron Bohlig, CEO of ComCap – The only ecommerce-focused investment bank
M&A and capital formation in 13 countries over last five years

- Global investment banker, former CEO of European comparison shopping and
  affiliate network company, extensive experience in the US, Asia, Western and
  Eastern Europe and Australia (Brazil is next!)

- ComCap works with retailers, retail software providers, professional services
  companies that focus on retail and payments companies

- Much of the focus of this presentation is on trends in the United States but the
  themes are relevant for all major markets

- DISCLAIMER: ComCap works with many of the companies shown in the
  presentation and may have a financial relationship with them

- Presentation available with bonus extra content on ComCapllc.com (sign up with
  your email) with other research at http://www.comcapllc.com/research/
Current retail backdrop
Retail environment unusually disruptive this year

- Bankruptcies
  - GanderMtn
  - Bob's Stores
  - Aéropostale
  - The Limited
  - BCBGMaxAzria
  - RadioShack
  - hhgregg
  - Payless

- Store closings
  - Walmart
  - Sears
  - Macy's
  - JCPenney
  - Ralph Lauren
  - Hayneedle

- Management changes
  - Barneys New York
  - Tiffany & Co.
  - Abercrombie & Fitch
  - Ralph Lauren
  - Coach
  - Givenchy

- Walmart vertical offensive
  - Jet
  - ModCloth

- Border tax and protectionist moves?
US retail landscape seeing consolidation / closures among undifferentiated retail growth in specialty retailers…

~47k shopping centers / malls, top tier sites survive, lower tier shuttering

Undifferentiated formats lose ground in US

- 2017: net 786 announced store closures (total of 3,658 closures)
- 2016: net 475 store openings (total of 1,674 store closures)

Potential for further upside in off price specialty

Specialty retail stores expanded 2.5x since 2000,

Source: Fung Global Retail, company press releases
Latin America should see continued growth in high value retail

**Only 2,000 malls and growing demand as middle class expands**

Falabella announces expansion across region
- Falabella announces $4bn four year expansion plan
- 31% allocated to logistics and omni-channel plans

<table>
<thead>
<tr>
<th>New stores (114) &amp; malls (9)</th>
<th>IT, logistics (omnichannel) and other</th>
<th>Store / mall remodel and expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.0</td>
<td>$1.0</td>
<td>$2.0</td>
</tr>
</tbody>
</table>

Cencosud has steadily grown it’s retail sqm
- Touts 6.2m sqm in “land bank” that can be tapped for expansion

Source: Fung Global Retail, company press releases

5% CAGR
Ecommerce share of retail doubling from ’15–’19
Mobile, Vertical models accelerating penetration

Ecommerce penetration growing with further upside

Ecommerce as % of total retail sales

<table>
<thead>
<tr>
<th>Region</th>
<th>2015</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia-Pacific</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Western Europe</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td>North America</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Central &amp; Eastern Europe</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>Latin America</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>Middle East &amp; Africa</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Worldwide</td>
<td>7%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Mobile as % of total ecommerce sales (2014)

Source: emarketer (ecommerce penetration excludes travel), KPCB. CapIQ.

Netshoes benefiting from digital commerce trends and rewarding investors

- The Leading Sports and Lifestyle online retailer in LatAm
- 13m customers across BR, AR, MX
- First in LatAm to offer free access navigation to customers
- 46% of visits via mobile in ’15 (up 4.6x y/y)
- 32% of orders via mobile

Stock price as % IPO closing price
Selected 2017 tech and retail IPOs

- Netshoes: 49%
- Cloudera: 25%
- Affirm: 15%
- Airbnb: 14%
- Okta: 9%
- MuleSoft: 2%
- Yotel: -2%
- J. Jill: -11%
- Snap: -12%
- Carvana: -21%
Globally marketplaces are taking significant share of “commodity” products.

Source: Publicly available data
While Alibaba and Mercado Libre are dominant in their core markets, globally Amazon remains the marketplace to watch.

<table>
<thead>
<tr>
<th>Product Marketplaces</th>
<th>No. of Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alibaba</td>
<td>407 million</td>
</tr>
<tr>
<td>Amazon</td>
<td>304 million</td>
</tr>
<tr>
<td>eBay</td>
<td>162 million</td>
</tr>
<tr>
<td>B2W</td>
<td>21 million</td>
</tr>
<tr>
<td>Zalando</td>
<td>18 million</td>
</tr>
<tr>
<td>Etsy</td>
<td>25 million</td>
</tr>
<tr>
<td>Groupon</td>
<td>50 million</td>
</tr>
<tr>
<td>OLX</td>
<td>260 million</td>
</tr>
<tr>
<td>MercadoLibre</td>
<td>150 million</td>
</tr>
<tr>
<td>Avenida</td>
<td>1 million</td>
</tr>
<tr>
<td>MakeMyTrip</td>
<td>3 million</td>
</tr>
<tr>
<td>Expedia</td>
<td>50 million</td>
</tr>
<tr>
<td>One Kings Lane (acq. By BB&amp;B)</td>
<td>10 million</td>
</tr>
<tr>
<td>Gilt Group (acq. by Hudson’s Bay)</td>
<td>9 million</td>
</tr>
<tr>
<td>ClearTrip</td>
<td>2 million</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Product Marketplaces</th>
<th>No. of Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priceline</td>
<td>13 million</td>
</tr>
<tr>
<td>Flipkart</td>
<td>26 million</td>
</tr>
<tr>
<td>Snapdeal</td>
<td>40 million</td>
</tr>
<tr>
<td>FarFetch</td>
<td>1 million</td>
</tr>
<tr>
<td>Jet.com</td>
<td>1 million</td>
</tr>
<tr>
<td>JiuXian</td>
<td>0.5 million</td>
</tr>
<tr>
<td>BeiBei</td>
<td>10 million</td>
</tr>
<tr>
<td>Souq.com</td>
<td>6.2 million</td>
</tr>
<tr>
<td>Mia.com</td>
<td>5 million</td>
</tr>
<tr>
<td>XiaoHongShu</td>
<td>17 million</td>
</tr>
<tr>
<td>JD.com</td>
<td>100 million</td>
</tr>
<tr>
<td>Yoox</td>
<td>2.5 million</td>
</tr>
<tr>
<td>Vente Privee</td>
<td>15 million</td>
</tr>
<tr>
<td>Craigslist</td>
<td>60 million</td>
</tr>
<tr>
<td>Tarad.com</td>
<td>3 million</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Service Platforms</th>
<th>No. of Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Task Rabbit</td>
<td>1.25 million</td>
</tr>
<tr>
<td>Fiverr</td>
<td>2 million</td>
</tr>
<tr>
<td>Care.com</td>
<td>19.5 million</td>
</tr>
<tr>
<td>Trulia</td>
<td>54 million</td>
</tr>
<tr>
<td>Pinterest</td>
<td>100 million</td>
</tr>
<tr>
<td>Facebook</td>
<td>1.65 billion</td>
</tr>
<tr>
<td>Twitter</td>
<td>310 million</td>
</tr>
<tr>
<td>Houzz</td>
<td>35 million</td>
</tr>
</tbody>
</table>

Source: Publicly available data
Fierce competition drives apparel price DEFLATION making growth harder

- The 2017 Total Retail report from PricewaterhouseCoopers LLP found that 47 percent of the 24,471 respondents surveyed across the globe use amazon.com as a research site for prices.

- Japan, Germany, Brazil and the U.S. were found to be the top four countries where consumers shop less often at brick-and-mortar stores due to the “Amazon effect.”

Source: U.S. Bureau of Labor Statistics

Durable Discounts

U.S. Inflation gets little boost from apparel pricing
Amazon is inventing at an unprecedented pace

Question: What is Amazon up to next? | Answer: EVERYTHING

- **New in-home products**
- **New supply chain innovations**
- **New physical store concepts**
  - Amazon bookstores open in 3 locations (5 coming soon)
  - Amazon Go convenience stores
  - Amazon Drive Thru convenience stores
  - Next: Larger grocery store format in 2017/2018

To compete with the major marketplaces and to avoid the fate of many retailers requires a different approach
Amazon is taking one third of total commerce growth, share gains accelerating through innovation

Estimated Amazon North America GMV Growth vs US Retail GMV Growth

Source: Channel Advisor, Census.gov, ComCap LLC estimates
Note: (1) US Retail GMW Growth = US Retail (ex-Autos & Food Services) + Automotive Parts / Tires – Fuel Dealers – Gasoline
(2) ComCap estimates Amazon North America GMV, which includes a small number for Canada. Walmart only reports GMW, not net dollar amount
ComCap’s retail playbook
Our 2017 retail playbook for an Amazon world

**Scale Up**
Consolidate to grow product selection, leverage infrastructure and create data assets

**Content**
Real content is key to getting attention in a world of bland email campaigns all focused on the word SALE

**Loyalty**
Prime is Amazon’s most important engine. Go beyond shipping with a loyalty program that highlights your unique attributes

**Services**
Offline services that can’t be replicated online are key to driving traffic to the physical store

**Differentiate**
DNVBs offer a unique opportunity to add unique product and generate “built-in” returns in an investment
Scale Up in an Amazon World

- Scale brings big data opportunities, lower pricing, higher consumer brand awareness and traffic so we recommend that retailers look to add scale or consolidate their retail categories, both offline and online.
- Capital is still readily available, and investors are comfortable betting on proven models in “new” geographies.
- The market is rewarding consolidation, as investors have cheered recent deals for dollar stores, jewelry, and sporting goods companies.
- Recent retail consolidation:

<table>
<thead>
<tr>
<th>Target</th>
<th>Acquirer</th>
<th>Date</th>
<th>Consideration (US$M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>eBags</td>
<td>Samsonite</td>
<td>04/10/2017</td>
<td>105</td>
</tr>
<tr>
<td>Skip Hop</td>
<td>Carter's</td>
<td>02/23/2017</td>
<td>140</td>
</tr>
<tr>
<td>Moosejaw</td>
<td>Walmart</td>
<td>02/15/2017</td>
<td>51</td>
</tr>
<tr>
<td>ShoeBuy</td>
<td>Jet</td>
<td>01/05/2017</td>
<td>70</td>
</tr>
<tr>
<td>Personalization</td>
<td>Bed Bath &amp; Beyond</td>
<td>11/22/2016</td>
<td>190</td>
</tr>
<tr>
<td>eTailz</td>
<td></td>
<td>10/17/2016</td>
<td>75</td>
</tr>
<tr>
<td>Cat&amp;Suit</td>
<td>Style</td>
<td>10/03/2016</td>
<td>9,386</td>
</tr>
<tr>
<td>Jet</td>
<td>Walmart</td>
<td>08/08/2016</td>
<td>3,000</td>
</tr>
<tr>
<td>Buys</td>
<td>DSW</td>
<td>02/17/2016</td>
<td>118</td>
</tr>
<tr>
<td>Gilt</td>
<td></td>
<td>01/07/2016</td>
<td>250</td>
</tr>
</tbody>
</table>
Scale up: Major retailers pursuing the marketplace model in imitation of Amazon / B2W / Mercado Libre

### Marketplace Sales as % of Digital Commerce
(30% of Global $1.2tn in ecommerce)

<table>
<thead>
<tr>
<th>Region</th>
<th>2007</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific</td>
<td>40%</td>
<td>45%</td>
</tr>
<tr>
<td>Australasia</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>Latin America</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>Middle East and Africa</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>North America</td>
<td>7%</td>
<td>9%</td>
</tr>
<tr>
<td>Western Europe</td>
<td>6%</td>
<td>8%</td>
</tr>
</tbody>
</table>

### Jeff Bezos' Growth Through Marketplace Explanation

- **Lower Cost Structure**
- **Lower Prices**
- **Selection**
- **Customer Experience**
- **Growth**
- **Sellers**
- **Traffic**

Source: Amazon.com
Marketplaces driving material scale

- **250 million** Customer Visits
- **200%** Increased Assortment within 12 months
- **#1** Baby Category in Canada (New Category)
- **2X** Increase in Product Assortment
- **↑10%** Of Incremental Sales within 12 Months
- **+15** New Subcategories Serviced

Benefits of scale: Big Data and Artificial Intelligence
45% of retailers plan to utilize AI through chatbots or digital assistants

- AI offers the ability to exploit the vast amounts of data gathered on customers and their preferences to personalize the customer experience
  - Amazon and other multi-channel retailers are currently experimenting with AI to offer purchasing suggestions based on answers to a series of questions and past purchase history
- Consumers are becoming more comfortable with chatbots
- Artificial intelligence increasingly supporting / replacing human merchandising decision making

Disruptive technologies such as artificial intelligence, augmented reality, and virtual reality are changing the shopping experience and the customer journey

Planned adoption of customer service technology

Source: 2017 Customer Experience / Unified Commerce Survey
Benefits of scale: Big Data and Artificial Intelligence
Using Artificial Intelligence for offline merchandising to maximize yield in store
Moving from planograms to AI-driven in store merchandising

ACCURATE DIGITAL MODEL OF ALL STORE LOCATIONS AND FIXTURES
Provides for the capture of the physical and logical attributes of stores, and everything in them

BUILD LOCALIZED VISUAL MERCHANDISING FOR EACH STORE
Localized merchandise drives higher sales create planograms and additional instructions specific for each store

SEE HOW MERCHANDISING INITIATIVES ARE PERFORMING
Digital merchandising enables visibility into all merchandising execution data in real-time

Source: OneDoor.com
Benefits of scale: Big Data and Artificial Intelligence
Analyzing the course of every consumer interaction to drive profit at Victoria’s Secret

Source: DynamicAction.com
**Differentiate your product assortment**

- DNVB brands are taking share but have limited physical distribution capabilities
- Retailers are partnering with / acquire DNVBs to increase product differentiation, and increased distribution will provide additional ROI
- Sizing and customization are additional key opportunities to differentiate

**Brands you don’t have access to…but should**

- Cotopaxi
- Away
- Raden
- Indochino
- Ministry of Supply
- Trukmaker
- Unmade
- Bonobos
- Chubbies
- MTailor
- Frank & Oak
- Chloe + Isabel
- Warby Parker
- CustomInk
- Yepme
- ZO
- Teespring
- MeUndies
- Tommy John
- Mack Weldon
- ModCloth
- Bow & Drape
- Reformation
- Wildfang
- Eloquii
- Draper James
- JustFab
- Grana
- Maiyet
- Dolls Kill
- Revolve
- Cuyana
- Adore Me
- Thirdlove
- Allbirds
- Society
- M.Gemi
- Feetz
- Stance

Source: CB Insights
“Fitment” – behind the scenes battleground between Amazon and… everyone

- Purchased shoeftr shoe algorithm company
- Filed patents to take 3D models of clothes
- Scanning 500k garments/yr in UK
- Launch of Echo Look set to massively increase images
- Potential to cross-market huge private label lines to undercut brands

**Consumer expectation**
- Product search by fit, online and instore clienteling apps

**Retailer benefits**
- +4-7% lift to net revenue
- +5-10% increase in new category sales
- Reduce current 40% return rate

**True Fit**
- Huge participating consortium of 10k+ brands and 100+ retailers
- $80bn sales & return data
- 180m fit profiles / 40m users
- Millions of garment specifications
- Driving discovery, repeat purchase rate, significant financial benefits

Mass customization: the shift in consumer demands

- 23% of the consumers said they have a relationship with a brand
- 36% of consumers are interested in personalized products or services
- 40% of respondents between the ages of 16 and 30 are attracted to personalized goods and services
  - 71% of these stated they would be prepared to pay a premium price

### Mass customization in select verticals

<table>
<thead>
<tr>
<th>Custom Apparel</th>
<th>Custom Footwear</th>
<th>Custom Bags</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>uberprints.com</td>
<td>VANS</td>
<td>MON PURSE</td>
<td>Ray-Ban</td>
</tr>
<tr>
<td>CUSTOMIZED GIRL</td>
<td>SPERRY</td>
<td>LONCHAMP</td>
<td></td>
</tr>
<tr>
<td>INDOCHINO</td>
<td>Reebok</td>
<td>Lids</td>
<td></td>
</tr>
<tr>
<td>CustomInk</td>
<td>adidas</td>
<td>OAKLEY</td>
<td></td>
</tr>
<tr>
<td>Zazzle</td>
<td>Nike</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes:
- 3 myths about what customers want - Harvard Business Review
- It's time to rethink your supply chain - Fluid
The Rise of Digital Native Vertical Brands
What is a digitally native vertical brand (DNVB)?

as defined by Andy Dunn, CEO of Bonobos

A digitally-native vertical brand meets four criteria:

1. It’s primary means of interacting, transacting, and story-telling to consumers is via the web. In almost all cases the brand is born digitally.

2. It’s a brand, and that brand is vertical. The name of the brand is on both the physical product and on the website. It requires the commercialization of an e-commerce channel, but that channel is an enablement layer, ecommerce is not the core asset – the brand is

3. The DNVB is usually maniacally focused on customer experience and on customer intimacy. The experience tends to be three-part bundle of physical product, web / mobile experience, and customer service that collectively become the brand in the consumer’s imagination

4. The brand rarely ends up digital only and moves offline through selective wholesale arrangements and experiential physical retail. In nearly all cases of partnerships, the brand controls its external distribution versus being controlled by it

Source: Andy Dunn, CEO of Bonobos; www.bonobos.com
Digital natives make up 13.1% of the population in the US, 10.8% of Brazil

Overall, there are approximately 363 million digital natives out of a world population of nearly 7 billion (5.2%)

Internet usage has increased significantly in the developing world during the past five years

The ITU believes the digital native population in these regions will more than double by 2017

Note: Digital native defined as someone who is 15-24 years old and has been using the internet for at least five years
Source: International Telecommunication Union
The Closet is Being Taken Over by DNVBs

>100 Venture-backed fashion brands raised nearly $2bn

Source: CB Insights and ComCap
Selected Largest DNVBs

<table>
<thead>
<tr>
<th>Vertical</th>
<th>Clothing</th>
<th>Baby Products</th>
<th>Clothing</th>
<th>Eyewear</th>
</tr>
</thead>
<tbody>
<tr>
<td>JUST FAB</td>
<td>BONOBOS</td>
<td>WARBY PARKER</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Milestones**
- Funds raised: $335m
- Funds raised: $222m
- Funds raised: $128m
- Funds raised: $196m

**Strategy**
- Reaches over 35m members worldwide through its portfolio of lifestyle fashion brands
- Business strategy of creating good products that won’t hurt the baby
- Now have significant offline distribution
- Established 20 ecommerce stores known as Guide-shops – plans to open more in 2016
- Moderate price point
- Home try-on
- Prescription app
- Expanding brick-and-mortar stores
Aron’s Wardrobe Provided By…

<table>
<thead>
<tr>
<th>Vertical</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAYLOR STITCH</td>
</tr>
<tr>
<td>Northern California Clothing</td>
</tr>
<tr>
<td>HUCKBERRY</td>
</tr>
<tr>
<td>Marketplace &amp; Clothing</td>
</tr>
<tr>
<td>MVMTN</td>
</tr>
<tr>
<td>Watches and Sunglasses</td>
</tr>
<tr>
<td>STANCE</td>
</tr>
<tr>
<td>Socks &amp; Underwear</td>
</tr>
</tbody>
</table>

**Strategy**

- Monthly emails to “pre-sell” products reduces inventory and enables rapid innovation
- Weekly emails sending a “catalog” of up and coming products across 100+ brands in a “marketplace” model
- Mid-range price point ($100-$150) watches designed to be seasonal, but lasting, to encourage repeat purchases for different uses – sport, work, nightlife
- Raised $115m to innovate in “weaving technology” to make better socks and underwear
Case Study: Mon Purse
Premium Customizable Women’s Accessories at an Affordable Price

- Consumers seeking brands and customizable products to better let them express their individuality.
- This is a very complex supply chain problem and existing brands will have a very difficult time responding to this trend.
Case study: Paul Evan’s shoes: the Paul Evan’s Story
Case study: Paul Evan’s shoes

Paul Evans represents an incredible value: Berluti craftsmanship at Allen Edmunds’ prices.

Quality

Paul Evans $24m Gross Revenue

JIMMY CHOO $397m*

HERMES $2.5b*

GUCCI $10b*

STUART WEITZMAN $300m*

Berluti $168m Gross Revenue

Church’s English Shoe $82.5m Gross Revenue

JACK ERWIN $8m Gross Revenue

Allen Edmonds AN AMERICAN ORIGINAL $181.2m Gross Revenue

COLE HAAN EST. 1928 $218m Gross Revenue

JOHNSTON & MURPHY SINCE 1850 $245.9m Gross Revenue

Price

Total Available Market:
Footwear Global $300bn / US $92.9bn¹
Serviceable Available Market:
Global $12bn / US $4bn²
Serviceable Obtainable Market:
$181,810,000³

Note: All figures represent Gross Revenue

¹ GfK Group Business Insights
² Luxury footwear accounts for 4% of luxury market
³ FactSet Data: 2014 Allen Edmonds Revenue

Source: Paul Evans
Case study: Paul Evan’s shoes 2
Comparison with luxury brands

- Like other DNVBs, Paul Evans has a differentiated product quality and a lower price
- They achieve this by contracting with similar suppliers but eliminating the wholesale and retail markup and selling direct to consumer
- DNVB’s have different approaches to marketing spending, which can impact profitability
DNVBs are disrupting the apparel product price to value equation

Because retailers require a 2-3x mark-up, traditional brands cannot compete with v-commerce only brands, who can sell the same quality product at a half to a third of the price.

Global “lifestyle” market

$2.1T

Distributor/retailer mark-up

2-3x

Brand margin

70%+

COGS

<30%

Lifestyle products are marked up 8-10x from manufacturer to customer

Consumer savings + additional brand margin

70%+

<30%

Traditional Brands

Direct to Consumer e-commerce Brands

Note: (1) Includes: Fashion & Accessories, Sport & Leisure, Wellness & Beauty, Home & Travel Goods, Global Market 2015
Source: Statista/Euromonitor
Selling on Amazon eats considerably into unit contribution

<table>
<thead>
<tr>
<th></th>
<th>Under Armour Shirt sold through Amazon</th>
<th>Under Armour Shirt sold through Own Website</th>
<th>Shirt sold through DNVB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. items purchased per year per consumer</td>
<td>3</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Price / Item</td>
<td>$50.00</td>
<td>$50.00</td>
<td>$50.00</td>
</tr>
<tr>
<td>Basket Size</td>
<td>$150.00</td>
<td>$150.00</td>
<td>$200.00</td>
</tr>
<tr>
<td>Referral Fee</td>
<td>-22.50</td>
<td>Marketing Cost*</td>
<td>10.00</td>
</tr>
<tr>
<td>Cost of Shirts</td>
<td>-60.00</td>
<td>-60.00</td>
<td>-60.00</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>$67.50</td>
<td>$90.00</td>
<td>$130.00</td>
</tr>
<tr>
<td>Fulfillment Cost</td>
<td>-17.25</td>
<td>-17.25</td>
<td>-23.00</td>
</tr>
<tr>
<td>Contribution Margin</td>
<td>$50.25</td>
<td>$72.75</td>
<td>$107.00</td>
</tr>
<tr>
<td>Unit Contribution %</td>
<td>34%</td>
<td>49%</td>
<td>54%</td>
</tr>
</tbody>
</table>

DNVB are aggressive about email marketing and are outperforming traditional retailers for items sold.

Source: CPC Strategy. Referral Fee on Amazon is 15% of Unit Price. Fulfillment / FBA fee of 8-15% of Unit Price. Marketing costs for DNVBs can vary dramatically.
Source: Criteo State of Mobile Commerce, Q4 2015. Global Retail Average Order Value is $100. Under Armour sold via Amazon and direct excludes advertising expenses.
Case Study: Taylor Stitch

Company
Taylor Stitch is a men’s & women’s apparel company headquartered in San Francisco, CA. We design and sell timeless, high quality clothing and accessories.

- New products crowdfunded in “Workshop” platform
- Monthly collections, new releases every week
- Handmade in USA & Europe

Values
- Operate with Integrity
- Better with Every Wear
- Put the Customer First
- 1% Better Everyday

Profitability & Scale
To build a profitable $500m/yr direct-to-consumer lifestyle brand predicated on crowdfunding and quality.

Taylor Stitch is becoming the L.L. Bean for a new generation of customers and is employing an operating model that drives customer loyalty and mitigates risk.
Case Study: Taylor Stitch “Pre-Sale” Model

Each Week, Taylor Stitch Crowdfunds New Products on its Workshop Platform. The Workshop De-risks Assortment & Inventory, Drives Engagement & Loyalty, and Supports In-Stock Selling

- **Pre-production**
  - Design & Vet
    - 12 monthly men & women collections
    - Early sketches & prototypes revealed in customer surveys to poll & seed product interest

- **Workshop Pre-Sale**
  - 40% of Online Rev
  - Pre-sell
    - Monthly releases drive return visits & press
    - 20% off retail pricing
    - 4-week funding periods
    - Almost all garments fund
    - Float finances production
    - Delivery in ~8-10 weeks

- **In-Stock Selling**
  - 60% of Online Rev
  - Arrivals & Limited Releases
    - Products that succeed in Workshop are manufactured and sold in-stock at full price
    - Occasional releases of small-batch niche product in-stock
  - Essentials
    - Perennial best-sellers
    - Low-risk, high velocity items
    - Less seasonal, merchandised alongside workshop collections

- The pre-sale model requires strong marketing and analytics and a very well integrated design to manufacturing process, but results in lower inventory requirements and very limited discounting of excess merchandise
Case Study: Huckberry – DNVB Marketplace

- Partners with over 100 DNVB and performance brands
- Curated content and “story telling” drive sales
- Email marketing leads to word of mouth consumer acquisition at very low cost
- Marketplace model enables introduction of private label brands
Amazon benefits from growing web fashion sales, but suffers from cannibalizing sales in its marketplace

Amazon benefits from growing web fashion sales

- Amazon’s move into apparel and accessories sales is being fueled by the increasing willingness on the part of consumers to buy fashion online
  - Web fashion sales rose 48% from January to April 2015 compared to the same period in 2014
- Analysts expect Amazon to surpass Macy’s as the number one US apparel retailer by 2017

Increasing web fashion sales appear to be cannibalizing its more profitable marketplace

- Amazon’s move into web fashion sales also appears to be cannibalizing its marketplace, which is believed to be more profitable:
  - While Amazon’s direct fashion sales rose to to 13.5% of dollar share in 2016 from 10.3% in 2014, its marketplace’s dollar share decreased to 21.5% from 26.3%
- As Amazon’s own fashion sales rise, its marketplace sellers may continue to fare less well with the increased competition found on the same site
  - This could be a problem for Amazon, considering that some 40% of its sales come from its marketplace

Source: 1010data, Cowen&Co
Traditional Brands and Retailers Committing Capital to DNVB’s and Digital Retail

Nordstrom’s Investment in Bonobos

- April 2012: Announced that Nordstrom will sell Bonobos clothing at select Nordstrom full-line stores and on Nordstrom.com and led a $16.4 million investment
- July 2014: Raised $55 million in fresh capital – including money from Coppel Capital, Mousse Partners and Nordstrom – to expand the brand in the physical retail world
- “Bonobos’ wholesale channel through Nordstrom is profitable, the catalog business is profitable and the guide shops are profitable.” – Pando, July 6, 2014

Neiman’s Acquisition of Mytheresa

- September 2014: Acquired on-line luxury shopping business Mytheresa. The company is headquartered in Munich, Germany where the flagship store is also located. The fashion site is quite successful in Germany, has good acceptance in the rest of Europe, and is gaining traction in Asia.
- Mytheresa.com generates estimated net sales of 100 Million Euro (about $130 Million). The company delivers exclusively designed fashion merchandise to 120 countries worldwide.
- “Neiman Marcus Group Ltd. swung to a profit in the January quarter, as the retailer reported revenue growth boosted by its acquisition of a German luxury retailer.” – Wall Street Journal, March 10, 2015

Target’s $75m investment in mattress company Casper

- May 2017: Target, a major North American retailer, invested $75m in direct to consumer mattress company Casper, reportedly after considering acquiring Casper for $1bn.
- “Target invested in Casper because we believe in their team, their ideas and their vision for reimagining sleep,” a Target spokesman said in a statement, but declined to confirm the amount invested.
- Target is launching more than a dozen of its own brands over the next two years in categories like Home and Kids to appeal to young families.
Case study: Nordstrom’s early investments / partnerships with DNVBs sets it apart from struggling competitors

Nordstrom is a leading pioneer in partnering with DNVBs in the US, which has given it a significant advantage over its competitors.
Thank you!

- ComCap works with retailers, brands, software companies, professional services companies and fintech for M&A and financing

- We are holding invite-only DNVB events with 30-50 DNVB CEOs in Los Angeles in June, New York in September and at Shoptalk Europe and Shoptalk Las Vegas

- We’d be very interested in collaborating to hold one in Sao Paolo!
Appendix
44 venture-backed fashion startups have raised over $1.5bn across more than 130 deals

- $400m
- $200m
- $100m
- $50m
- $10m

- Children's Clothing
- Clothing
- Eyewear
- Luggage
- Outdoor Gear
- Shoes

- Funding Information
  N/A

- JUSTFab
- STANCE
- BONOBOS
- INDOCHINO
- ELOQUII
- Frank & Oak
- ROKA
- Cuyana
- ADORE ME
- TOMMY JOHN
- EVERLANE
- TAYLOR STITCH
- Rcrochet
- PACI
- AYR
- DAV/DK/ND
- cotopaxi
- Away
- RADE
- H.GEMI
- Jack Erwin
- GREATS
- Kiko Collective
DNVB Landscape (Cont’d)

Amount Raised
$400m
$200m
$100m
$50m
$10m
Seed

Bags
Beauty Products
Beds
Beer
Bicycles
Coffee
Food
Furniture
Housewares
Mobile Phones
Perfumes
Platform
Shaving
Various Shopping
Watches

Funding Information
N/A

Glossier
Quip
HARRY’S

BROSA
Niche
MOMENT

Food

Brilliant

SOLÉ

Coffee

Food

Bicycles

Beauty

Bags

Furniture

Housewares

Mobile Phones

Perfumes

Platform

Shaving

Various Shopping

Watches

Dining

Beverage
Subscription eCommerce Landscape

- **Seed Funding**
  - Bombfell
  - ManxBall
  - STITCH FIX
  - LE TOTE
  - ADORE ME

- **Amount Raised**
  - $400m
  - $200m
  - $100m
  - $50m
  - $10m

- **Categories**
  - Men’s Apparel
  - Women’s Apparel
  - Children
  - Hobbies
  - Beauty & Personal Care
  - Feminine Care
  - Pet Items
  - Outdoor Activities
  - Dating

- **Funding Information**
  - N/A