



### KEY M&A TAKEAWAYS

- ▶ The E-commerce & Internet Retailing market has experienced substantial growth with sales increasing at an average rate of 15.8% year-over-year (YOY) since 2009, according to the US Census Bureau.<sup>1</sup> Favorable macroeconomic tailwinds during this period have held steady with most recent data indicating a 2.3% YOY increase in per capita disposable incomes in March, according to the Federal Reserve,<sup>2</sup> and a 4% month-over-month increase in the April consumer confidence index, according to The Conference Board.<sup>3</sup> The discretionary nature of e-commerce and its positive correlation with consumer spending data will dictate future growth rates.
- ▶ In addition to favorable consumer dynamics, success of personalized shopping experiences have been evident in e-commerce spending patterns. Merger and acquisition activity has reflected this with World Co., Ltd.'s (TYE:3612) acquisition of Original, Inc., an online fashion clothier that retails custom-designed dress shirts. The deal closed in March at an enterprise value of \$37.5 million, equating to 19.5x revenue.

### BUYER BREAKDOWN

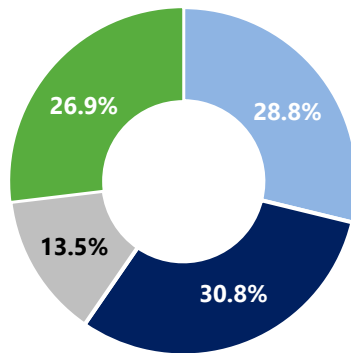
- ▶ With 52 transactions announced or completed year-to-date (YTD) in 2019, deal activity has significantly outpaced the 28 deals seen YTD in 2018. Private equity buyers remain active in the space, accounting for 40.4% of total deal activity. Private equity-backed portfolio companies accounted for 26.9% of total deals.

#### STRATEGIC

- Public
- Private

#### FINANCIAL

- Direct
- Add-on



YTD ended May 14  
Source: CapIQ and Capstone Headwaters Research

### SEGMENT HIGHLIGHT: HOME FURNITURE

- ▶ Online household furniture sales in the US have grown rapidly over the past five years at a 9.4% annualized rate and are expected to grow at a 2.6% annualized rate to reach \$13.9 billion by 2024, according to IBISWorld.<sup>4</sup> As disposable incomes trend higher and consumers increase their appetites for big ticket e-commerce purchases, online sales in the Home Furniture industry are expected to account for an increasing percentage of total market revenue. Despite price-induced competition, profit margins have expanded, attracting new entrants into the market. With an influx of competition, operators have sought to differentiate not only through product offerings but also through supply chain efficiencies and expedited order-to-ship times.
- ▶ Notably, there have been 10 transactions from 2018 through YTD 2019 targeting e-commerce home furniture and decor companies. Private equity firms, directly and indirectly, have accounted for 40% of these transactions, drawn into the space by high margins and the ability to stimulate growth through add-on acquisitions. On the other hand, strategic deals have been rationalized in order to expand product offerings, develop supply chain efficiencies, and enhance technologies and experiences.

### CSHW IMAP PARTNER TRANSACTION

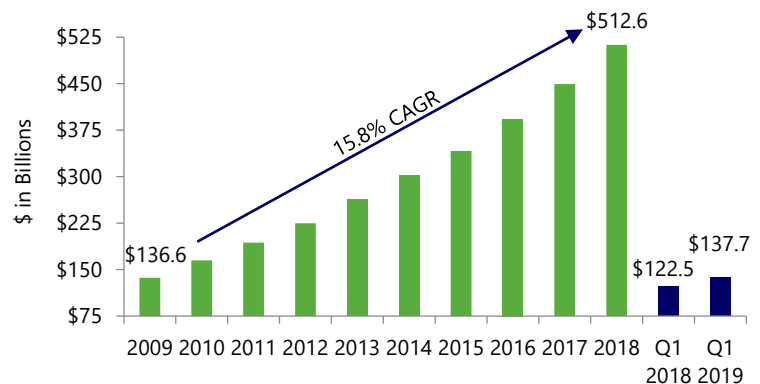


**TorQuest Partners, Inc. acquires Prepac Manufacturing Ltd. (March 2019, Confidential Terms)** – TorQuest Partners has acquired Prepac Manufacturing, advised by Capstone Headwaters' International M&A Partner (IMAP), Capital West. Canadian-based Prepac designs, manufactures, and drop-ships ready-to-assemble (RTA) home furniture for customers in North America.

Founded in 1979, Prepac was a first-mover in the online retail space and in the 1990s started to provide drop-shipping directly from its manufacturing facility to end-customers. Prepac has since significantly expanded its business and now exclusively sells its products through large online furniture retailers such as Amazon, Wayfair, and Walmart. State-of-the-art manufacturing facility maintains a "just-in-time" inventory which ensures order-to-ship times of six to 48 hours. Jim Mathison, President of Prepac, commented, "Our focus on our retail customers and end consumers will remain core to our business strategy as we continue to grow our market share in North America."<sup>5</sup>

### US E-COMMERCE SALES

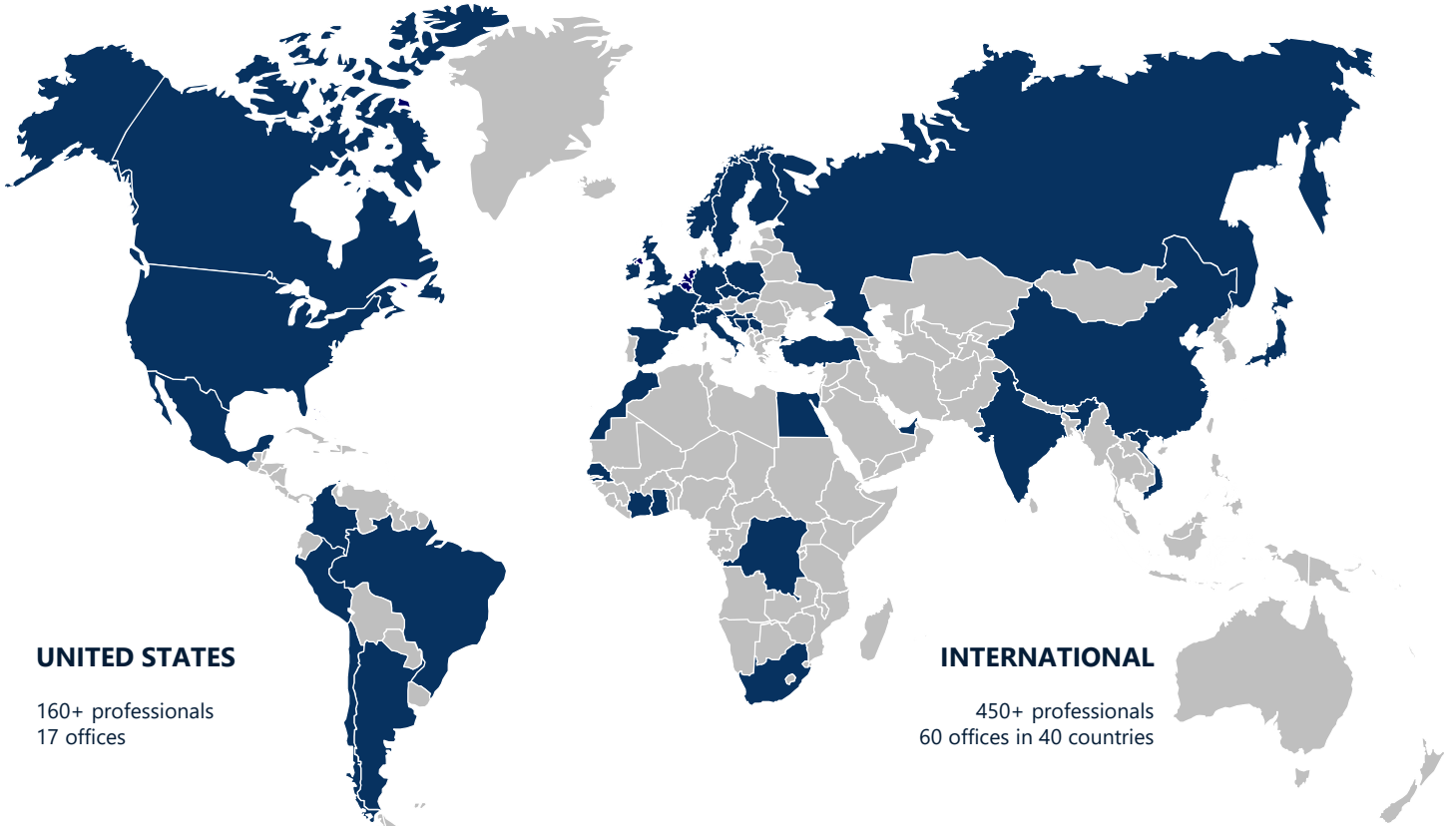
- ▶ In Q1 2019, US e-commerce sales reached \$137.7 billion, representing a 12.4% YOY growth rate, according to the US Census Bureau. Rapid growth in the E-commerce and Internet Retail industry is expected to continue as consumer preferences trend away from traditional brick-and-mortar retailers toward efficient e-commerce shopping experiences.



Source: US Census Bureau



## BUILT FOR THE MIDDLE MARKET



### CITATIONS

1. US Census Bureau, "Quarterly Retail E-Commerce Sales 4<sup>th</sup> Quarter 2018," [https://www.census.gov/retail/mrts/www/data/pdf/ec\\_current.pdf](https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf), accessed May 16, 2019.
2. FRED, "Real Disposable Income: Per Capita," <https://fred.stlouisfed.org/series/A229RX0>, accessed May 16, 2019.
3. The Conference Board, "Consumer Confidence Survey," <https://www.conference-board.org/data/consumerconfidence.cfm>, accessed May 16, 2019.
4. IBISWorld, "Online Household Furniture Sales," <https://clients1.ibisworld.com/reports/us/industry/majorcompanies.aspx?entid=5076#OC>, accessed May 16, 2019.
5. TorQuest, "TorQuest Partners Announces Acquisition of Prepac," <https://www.torquest.com/news/article/torquest-partners-announces-acquisition-of-prepac>, accessed May 16, 2019.

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