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Drawing Capital

E-Commerce in a Post-Pandemic World

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E-Commerce in a Post-Pandemic World

Presented by:

Sagar Joshi and Sean van der Wal



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About

Drawing Capital is an innovation-focused private investment firm headquartered in Silicon Valley, CA.

Drawing Capital aims to capture the expansion of a technology-forward world by investing in leaders that we believe carry undervalued growth. Our expertise in finance and data science enables us to participate in investment opportunities in public markets not captured by passive investing.

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Historical E-Commerce Trends

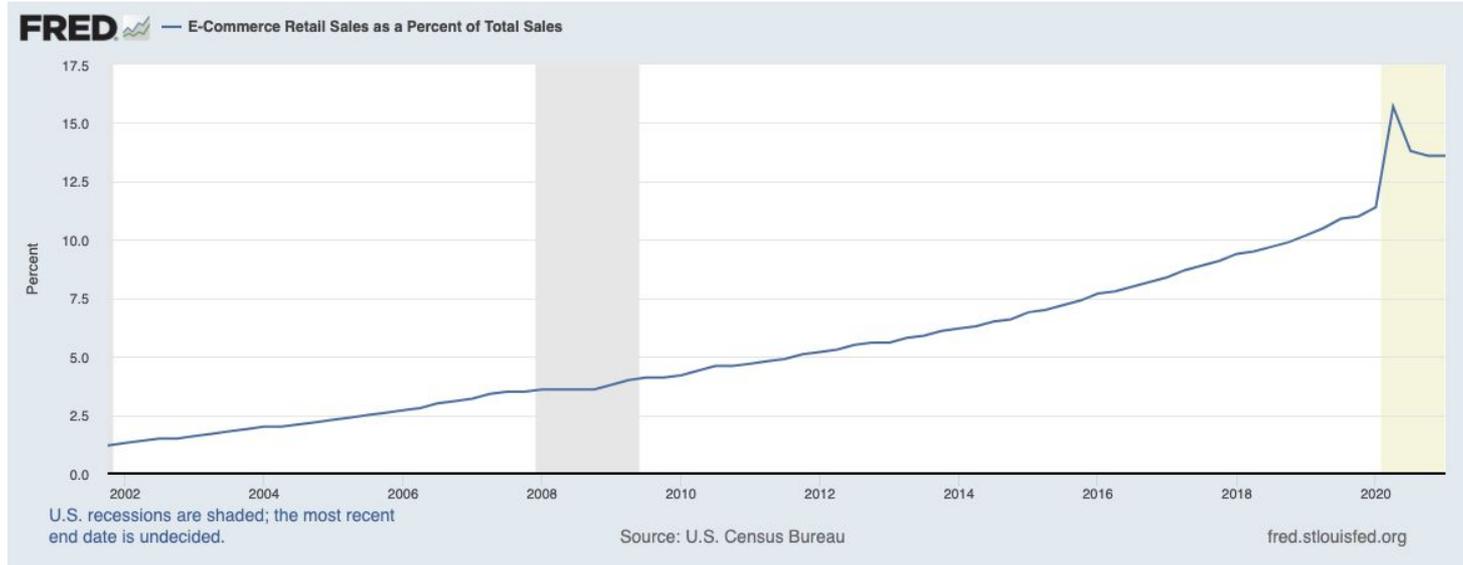
- Retail sales from e-commerce represent about 13.6% of total retail sales in America.¹
- COVID-19 pandemic accelerated adoption in e-commerce, fintech, and software in everyday lives.
- America's e-commerce retail sales grew 2,447% from Q4 2000 to Q4 2020.²
- China is expected to be the global leader in total e-commerce sales in dollar terms in 2021.³

All information on this slide are opinions of Drawing Capital.

1. <https://fred.stlouisfed.org/series/ECOMPCTSA>
2. <https://fred.stlouisfed.org/series/ECOMSA>
3. <https://www.oberlo.com/statistics/ecommerce-sales-by-country>



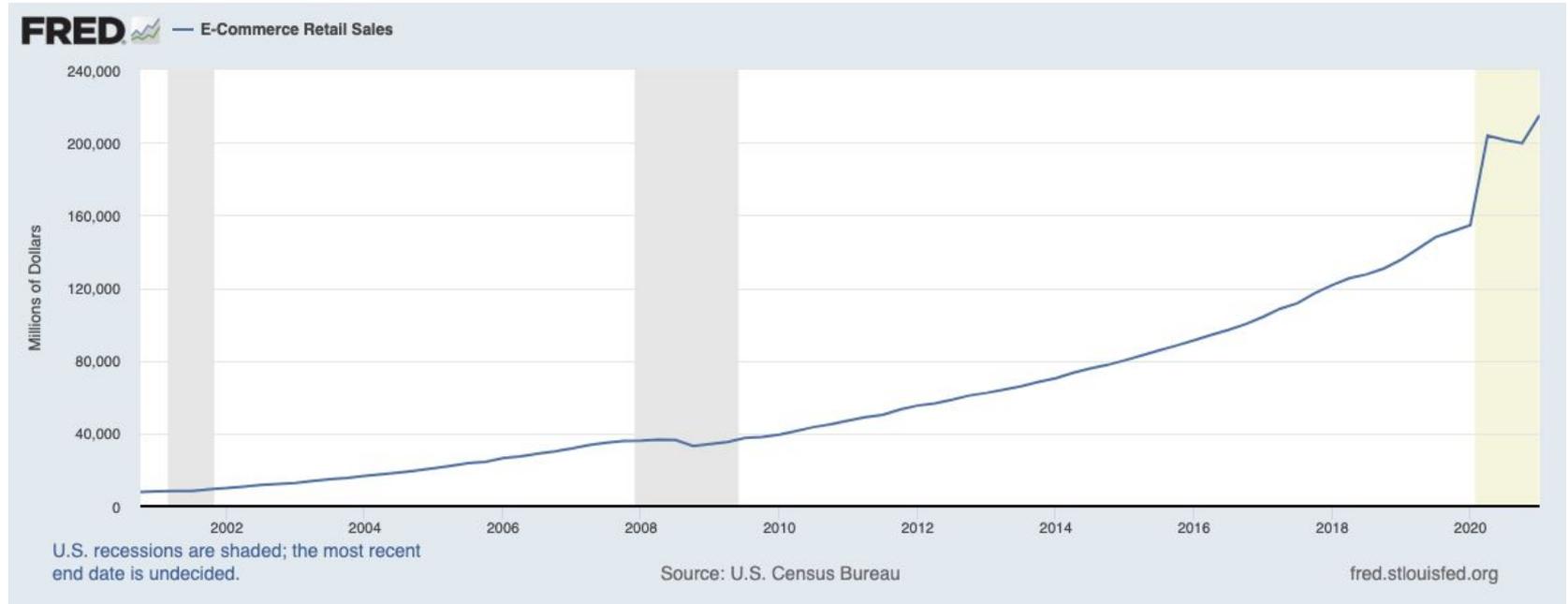
Historical Upward Trajectory for E-Commerce Retail Sales



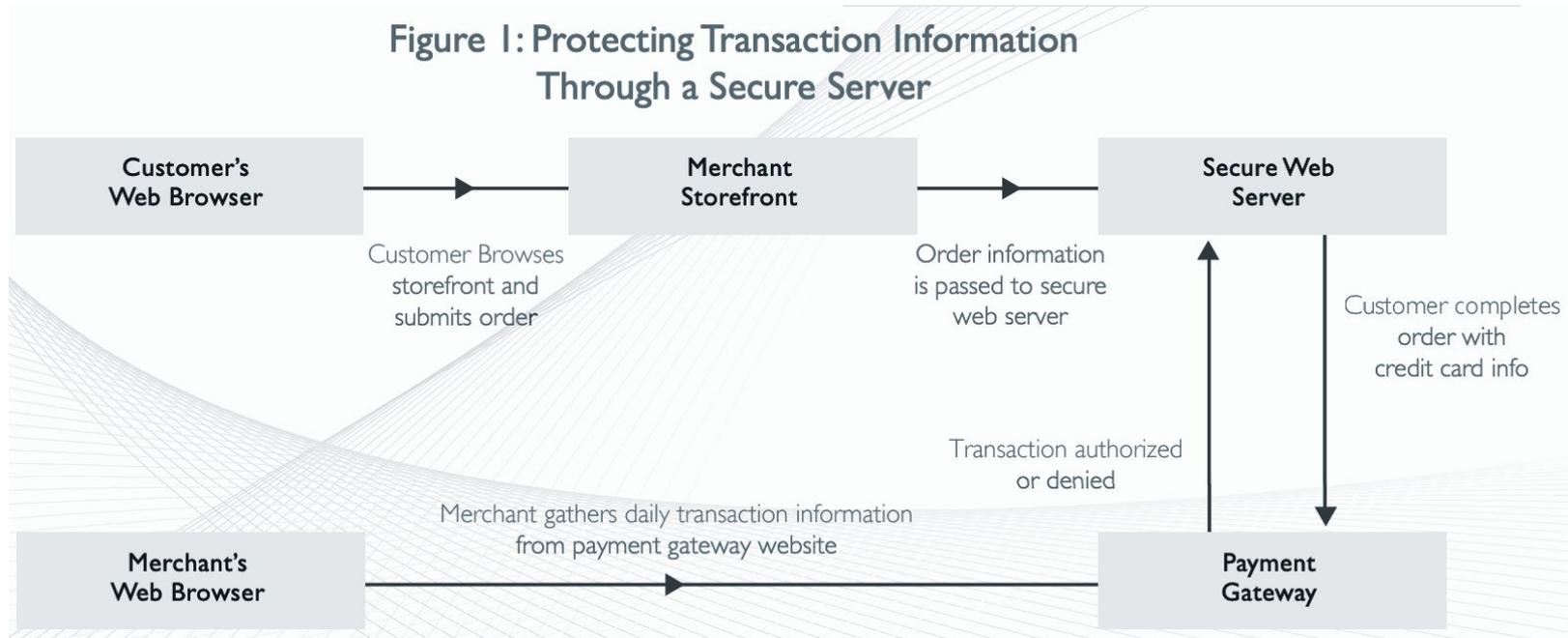
Key Insight: E-commerce market share as a percentage of total retail sales is near 14% and has enjoyed multi-decade growth. Significant growth prospects exist in this under-penetrated market. When both retail sales and the market share of e-commerce increase over time, e-commerce “wins” twice.



America's E-Commerce Retail Sales Grew 2,447%

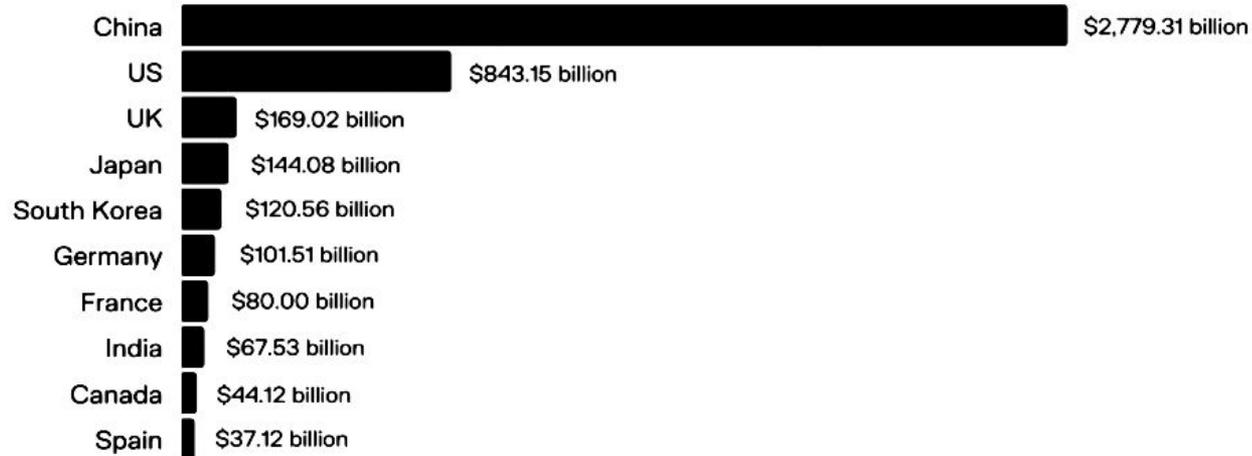


Visualization of a Security Workflow in an Online Purchase





China is Expected to be the Global Leader in E-Commerce Sales in 2021



Data Source: Future forecasts for 2021 are speculative in nature and display an opinion.
E-commerce sales estimates are from eMarketer and OBERLO: <https://www.oberlo.com/statistics/ecommerce-sales-by-country>

Research Paper from Bank of International Settlements

The pandemic has led to shifts in card payment behaviour¹

Graph 3

Evolution of transaction card values across sectors of economic activity²



Card-not-present (CNP) transactions rose more in some sectors³



The black vertical line indicates 11 March 2020, when the World Health Organization declared Covid-19 to be a pandemic.

¹ Data for 18 countries and 34 sectors over September 2019–June 2020. ² Total net transaction value (includes all transaction types) in USD. ³ Share of CNP value measured in USD over the total net transaction value in USD.

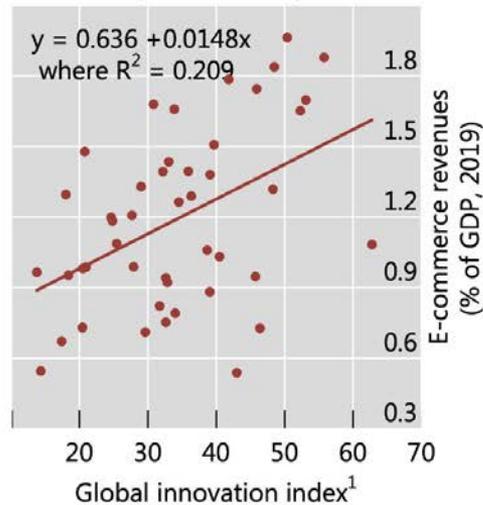
Source: a global card network.

Research Paper from Bank of International Settlements

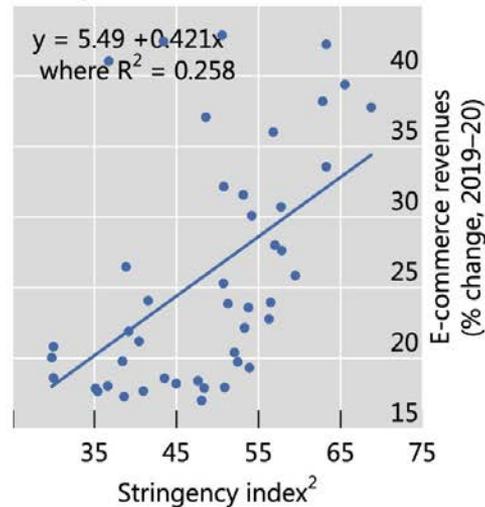
E-commerce development...

Graph 4

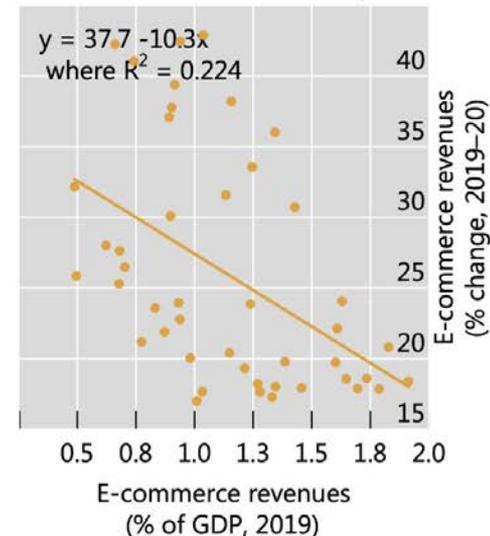
...was higher in more innovative countries prior to the pandemic



...has grown more in countries with stronger containment measures



...has grown more where e-commerce was less developed

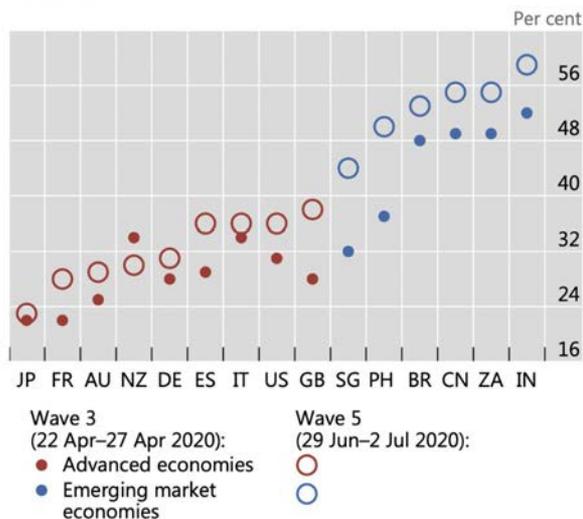


Research Paper from Bank of International Settlements

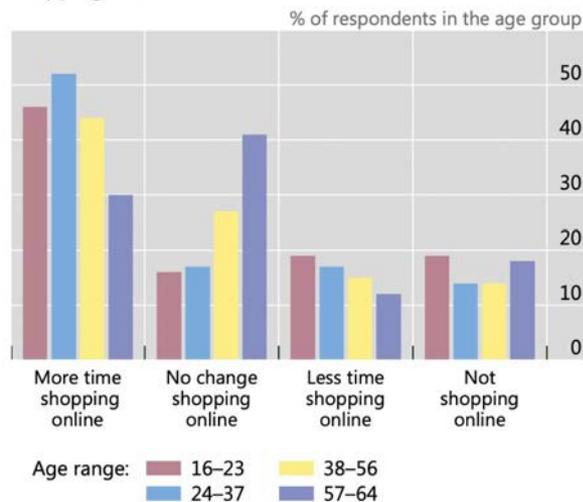
Covid-19 and changes in consumer behaviour

Graph 5

Share who expect to continue shopping online after the outbreak



Especially younger cohorts report spending more time shopping online



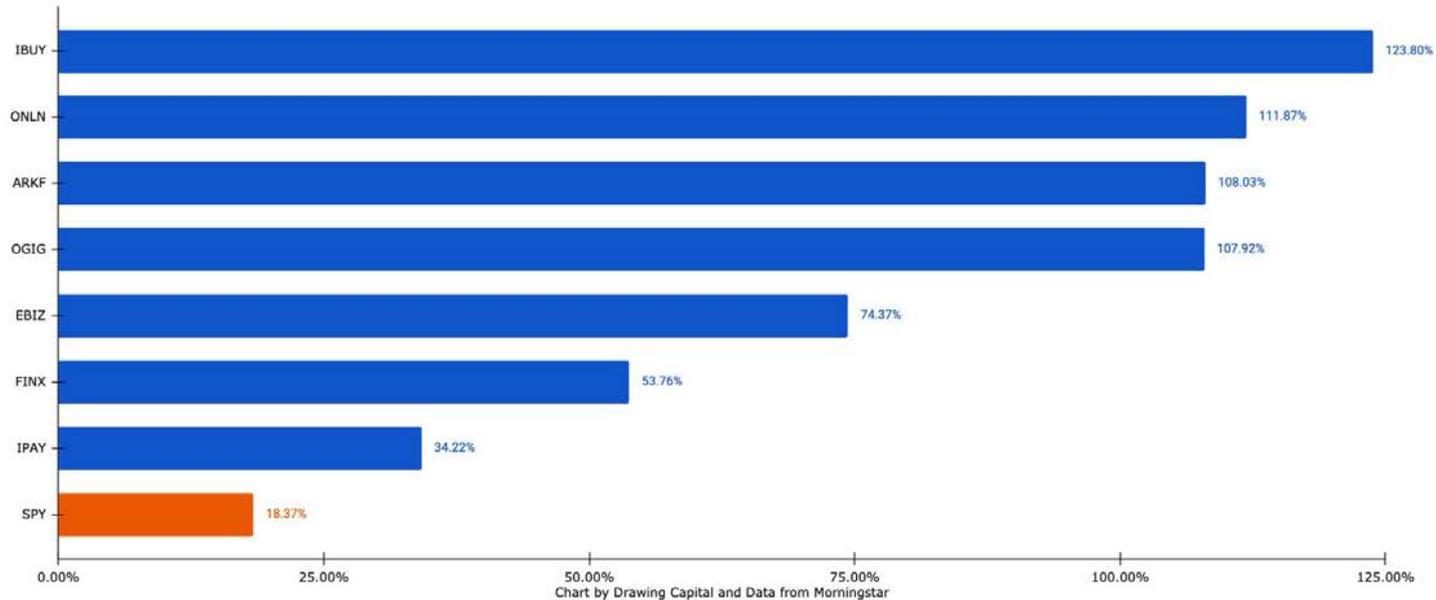
Source: GlobalWebIndex.

ETF Performance

- E-commerce and fintech ETFs generated significant returns in 2020.
- Despite rising correlations and falling stock prices in February-March 2020, e-commerce and fintech ETF performance was incredible from April 2020-April 2021.

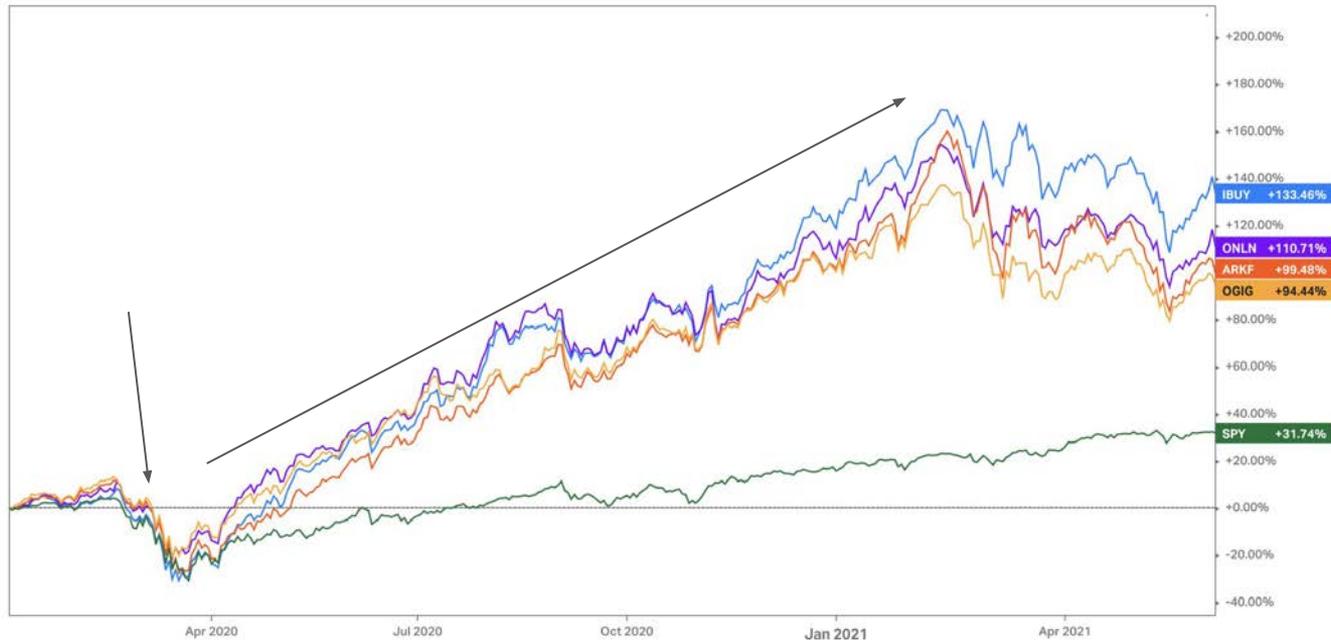
In 2020, Several E-Commerce & Fintech ETFs Delivered Significant Returns That Outperformed the S&P 500

2020 Performance of S&P 500 Index ETF (SPY) Versus Sample List of E-Commerce and Fintech ETFs



Past performance is not indicative of future results. Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations.
Data Source: Morningstar, <https://www.morningstar.com/>

A Surging Recovery Followed Up a Correlated Downward Price Movement in February-March 2020



Past performance is not indicative of future results. Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations.
Data Source: Koyfin, <https://app.koyfin.com/>

Future of E-Commerce

- We observe 3 evolutions in commerce.
- Several e-commerce trends demonstrate the dynamic and creative nature of the industry.
- Robots have an integral role in increasing productivity, automation, and value creation.
- The “Amazon Effect” has created enormous value for customers.

3 Evolutions of Commerce

1

In-Person

- In-Store Payment
- In-Store Pickup
- People Interaction
- Physical Display

2

In-Person to Online Transition

- B2C
- B2B
- C2C
- Online Transactions

3

Specialized E-Commerce

- Social Commerce
- Personalization
- Curated Experience
- Digital Marketplaces



Big Trends in E-Commerce & Payments





Role of Robots

1

Productivity

Improved productivity, enhanced tracing, and increased quality

2

Automation

Conventional robots, collaborative robots, and software-based automation

3

Augmentation

Robots augment and support human labor with declining cost curves

4

Increase Value-to-Time

Enablement of worldwide warehouse distribution.



The “Amazon Effect”

Before

- In-person, hour-long experiences to visit stores, make purchases, put purchases inside carts, and stand in checkout lines
- Complex and costly return policy
- Captive customer based on locality

After

- ~28% of Amazon purchases occur in 3 minutes or less
- ~50% of Amazon purchases occur in 15 minutes or less
- 200+ million Amazon Prime members
- \$300+ billion of value creation for customers in 2020
- \$1.6+ trillion in shareholder wealth for Amazon shareholders
- Customer-obsessed culture that innovates on behalf of customers

IV

Fintech + Software + E-Commerce

- E-commerce companies are increasingly inventing and optimizing e-commerce and payment channels.
- Utilizations of digital wallets and cashless payments are soaring.
- The combination of e-commerce, fintech, and software development improves customer experiences across several industry verticals.

Common Parameters for Adopting Mobile Payments



Network Effects



Low Costs



Trust & Convenience



Digital Ledgers



Value creation



Ancillary Benefits



2 Roadmaps with Examples for Value Creation in E-Commerce and Financial Payments

Invention & Creation in E-Commerce & Payments

1. Digital wallets and mobile payments
2. Credit cards and debit cards
3. 2 factor authentication
4. API-based payment infrastructure

Optimization & Convenience in E-Commerce & Payments

1. Buy now, pay later (BNPL)
2. Subscription services & free shipping
3. Reduce friction to enhance consumption
4. Warehouse fulfillment centers

Research from FIS Worldpay February 2021 Report

- 1 2020 was a milestone year for digital wallet usage compared to in-store point-of-sale payments. In America, cash payments dropped by ~\$400 billion to reach \$1.0 trillion in the value of cash-based in-store payments in 2020.
- 2 Digital wallets are estimated to be more than half of all e-commerce payments worldwide by 2024 to become the dominant global e-commerce payment method. Consumers are increasing their willingness to adopt digital payments and enjoy their financial benefits and non-financial benefits.
- 3 Adoption of BNPL is estimated to double its market share by 2024 from the current ~2.1% market share level.
- 4 The combination of digital wallets, credit cards, and debit cards are estimated to exceed 75% in market share for e-commerce payment methods by 2024 in North America. Meanwhile, usage of charge cards, cash-on-delivery, bank transfers, and prepaid cards is estimated to decline in market share in 2020-2024.
- 5 Total e-commerce spending in 2020 was worth about \$4.6 trillion. FIS Worldpay guidance suggests that total global e-commerce spending may increase to \$7.3+ trillion by 2024.



Rise in Cashless Payments in China

1

Rise of AliPay, WeChat Pay, and "super apps"

2

High popularity in the use of QR codes

3

Chinese governmental incentives for digital transactions, fintech innovation, and advancement of financial infrastructure

4

Consumer willingness to adopt digital payments and enjoy its financial benefits and non-financial benefits

V

Social Commerce

- Grand View Research estimates the growth rate for global social commerce to grow at a ~28% CAGR from 2021-2028. Global market size for social commerce was ~\$475B in 2020.
- The rise of the “influencer economy” and “creator economy” is influencing individual purchasing decisions.
- Network effects of social media platforms provide a voice and influence.



Rise in Social Commerce

1

Social media platforms encourage multi-hour viewing of their apps on a daily basis.

2

Social media platforms have more than 3 billion people, and software enables massive global distribution at scale.

3

“Influencer economy”, “creator economy”, marketing, and advertising on social media platforms influence consumption patterns.
Social media + ecommerce = social commerce.

4

The global social commerce market size was valued at ~\$475 billion in 2020. Grand View Research estimates a ~28% CAGR for global social commerce from 2021 to 2028.

Data Sources:

Statista, <https://www.statista.com/statistics/278414/number-of-worldwide-social-network-users/>

Oberlo, <https://www.oberlo.com/statistics/how-many-people-use-social-media>

Grand View Research, <https://www.grandviewresearch.com/industry-analysis/social-commerce-market>

Social Media + Ecommerce = Social Commerce



Instagram & FB



Tik Tok



Douyin



Sina Weibo



Taobao



WeChat

WeChat Marketplace



YouTube

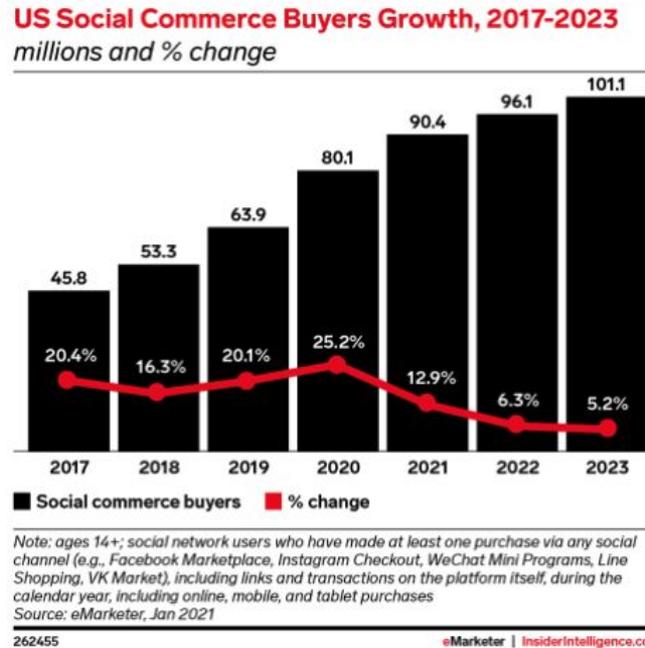


Snapchat



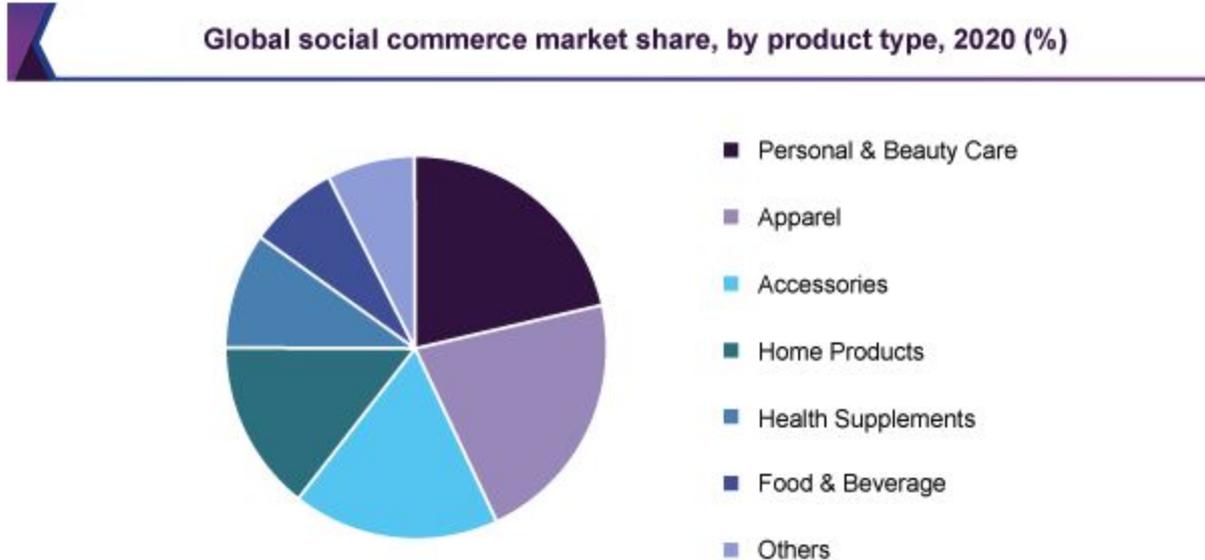
Poshmark

Estimated American Growth in Social Commerce

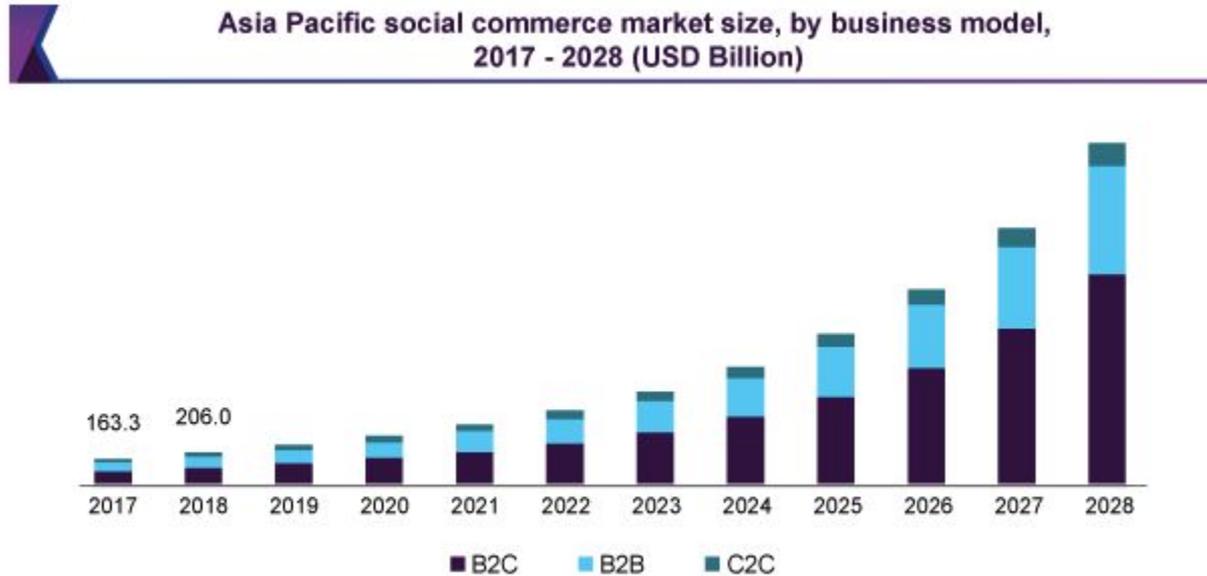


Note: Past performance is not indicative of future results. Forecasts are speculative in nature and subject to change.

Global Social Commerce Market Share in 2020



Grand View Research Estimates Strong Growth in the Future Market Size for Social Commerce



Note: Past performance is not indicative of future results. Forecasts are speculative in nature and subject to change.
Data Source: Grand View Research, <https://www.grandviewresearch.com/industry-analysis/social-commerce-market>

VI

Sample Companies

- We have curated a sample list of e-commerce companies by category and geography.
- For investors, significant opportunities exist to ride the multi-trillion dollar e-commerce tailwind.
- For entrepreneurs, there are tremendous opportunities to build e-commerce companies that address specific industry verticals or existing pain points in order to drive value creation.

Sample E-Commerce Companies

<i>Category of Specialized E-Commerce</i>	<i>Example Company or Product</i>
Social Commerce	Pinduoduo (\$PDD) Pinterest (\$PINS)
Personalized & Curated E-Commerce	Stitch Fix (\$SFIX)
Marketplace E-Commerce	Shopify (\$SHOP) Amazon Marketplace (\$AMZN) Facebook Marketplace (\$FB) Etsy (\$ETSY) eBay (\$EBAY) Craigslist
High Volume & Daily Goods	Amazon's "Subscribe & Save Program" (\$AMZN) Dollar Shave Club
High Magnitude & Significance	GoodRx Gold Membership (\$GDRX)

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Leading E-Commerce Companies by Geography

<i>Geography</i>	<i>Leading E-Commerce Companies</i>
USA & Canada	Amazon (\$AMZN), Walmart (\$WMT), Shopify (\$SHOP)
China	Alibaba (\$BABA), Pinduoduo (\$PDD), JD.com (\$JD), Tencent Holdings (\$TCEHY)
Germany	Otto, Zalando (\$ZLNDY), Metro Group
India	Flipkart, Snapdeal
Southeast Asia	Sea Limited (\$SE), Tokopedia, Grab, Lazarda
South Korea	Coupang (\$CPNG)
Japan	Rakuten (\$RKUNY)
Russia	Ozon Holdings (\$OZON), Wildberries, Citilink
Latin America	MercadoLibre (\$MELI)

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Summary

1

Growing global e-commerce adoption is a multi-trillion dollar tailwind that is beyond just a one-time, coronavirus-induced event. The intersection of e-commerce, fintech, and software present significant opportunities for investors and entrepreneurs.

2

Consumer adoption is higher for digital payments and e-commerce when choices are cheaper, faster, and more convenient than previous traditional methods. Digital wallets are estimated to represent 50%+ of all e-commerce payments worldwide by 2024. Adoption of BNPL is estimated to double in North America & Europe by 2024.¹

3

The global social commerce market size was valued at ~\$475 billion in 2020. Grand View Research estimates a ~28% CAGR for global social commerce from 2021 to 2028.

4

We believe that a curated basket of high-quality e-commerce companies presents a compelling e-commerce investing index for investors seeking high-growth opportunities.

5

The 2 roadmaps for value creation in e-commerce and financial payments are either “invention and creation” or “optimization and convenience”.

1. Data Source: FIS, <https://worldpay.globalpaymentsreport.com/>;
<https://www.businesswire.com/news/home/20210224005222/en/Digital-Wallets-Eclipse-Cash-Globally-at-Point-of-Sale-for-First-Time-During-Pandemic-FIS-Study-Finds>

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