

Retail Trends in North America

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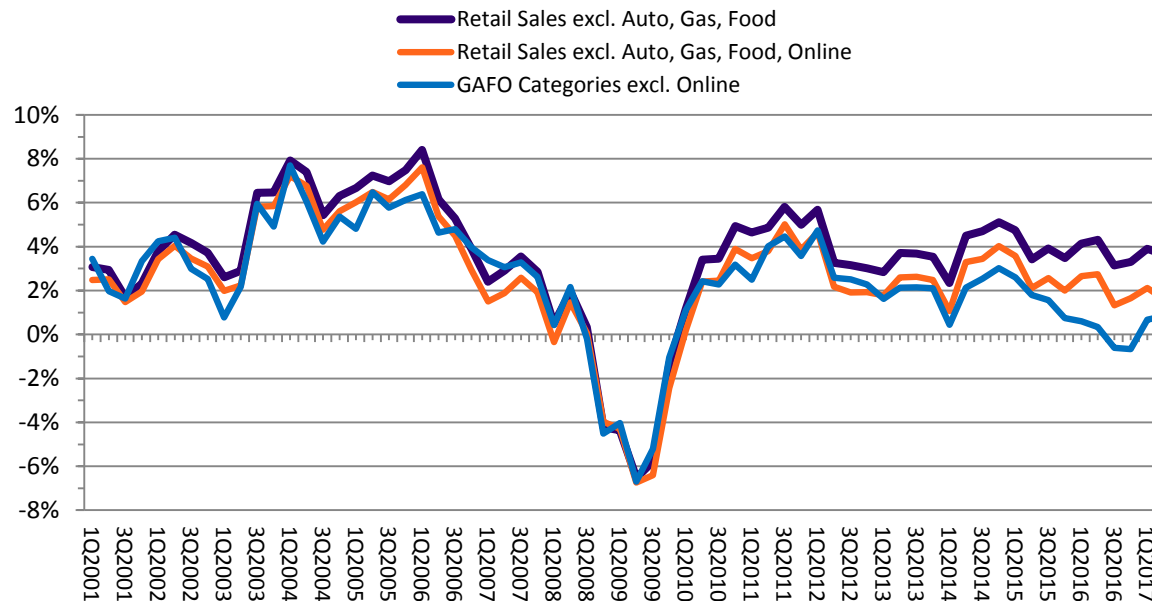
9 November 2017

US retail sales growth remains stubbornly subdued and profitability weakens

- It has been an uninspired recovery for U.S. retail sales compared to economic growth cycles of the late-1990's and mid-2000's, with discretionary spending growth languishing near 3.5% (YOY) for over two years running.

U. S. DISCRETIONARY RETAIL SALES

U.S. Retail Sales Growth (YOY)



Source: Discretionary spending (we use the GAFO category as our proxy) and of non-store sales since 1993 as reported to the U.S. Bureau of the Census ("BOC"). GAFO represents firms that specialize in merchandise consisting of furniture & home furnishings; electronics & appliances; clothing & accessories; sporting goods; hobby, books and music; general merchandise; office supplies and stationery; and gift stores. Adjusted GAFO includes GAFO category sales plus non-store sales, primarily online.

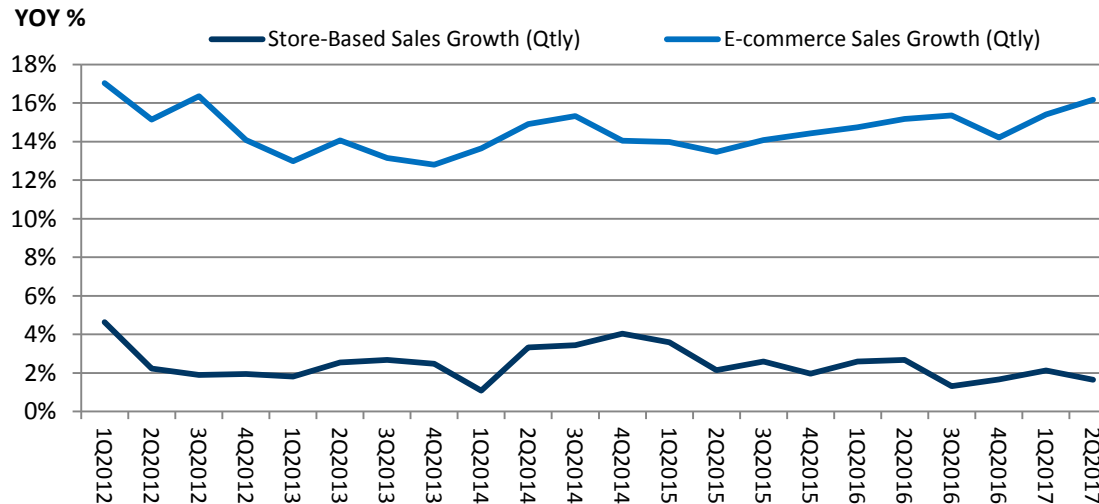
Two very different realities by shopping channel

- It is not a pretty picture for stores, with in-store sales growth (YOY) gradually trending lower in the post-recession period, while online sales have consistently been growing at a mid-teen rate.
- Increased store closings and fewer new stores began in 2016 and will continue for the foreseeable future. Store closures in 2017 will be the highest since the recession.

U.S. DISCRETIONARY SALES – IN-STORE vs. ONLINE

Source: U.S.
Census Bureau

Store-Based Retail Sales (Ex Auto & Gas) vs. E-Commerce Sales

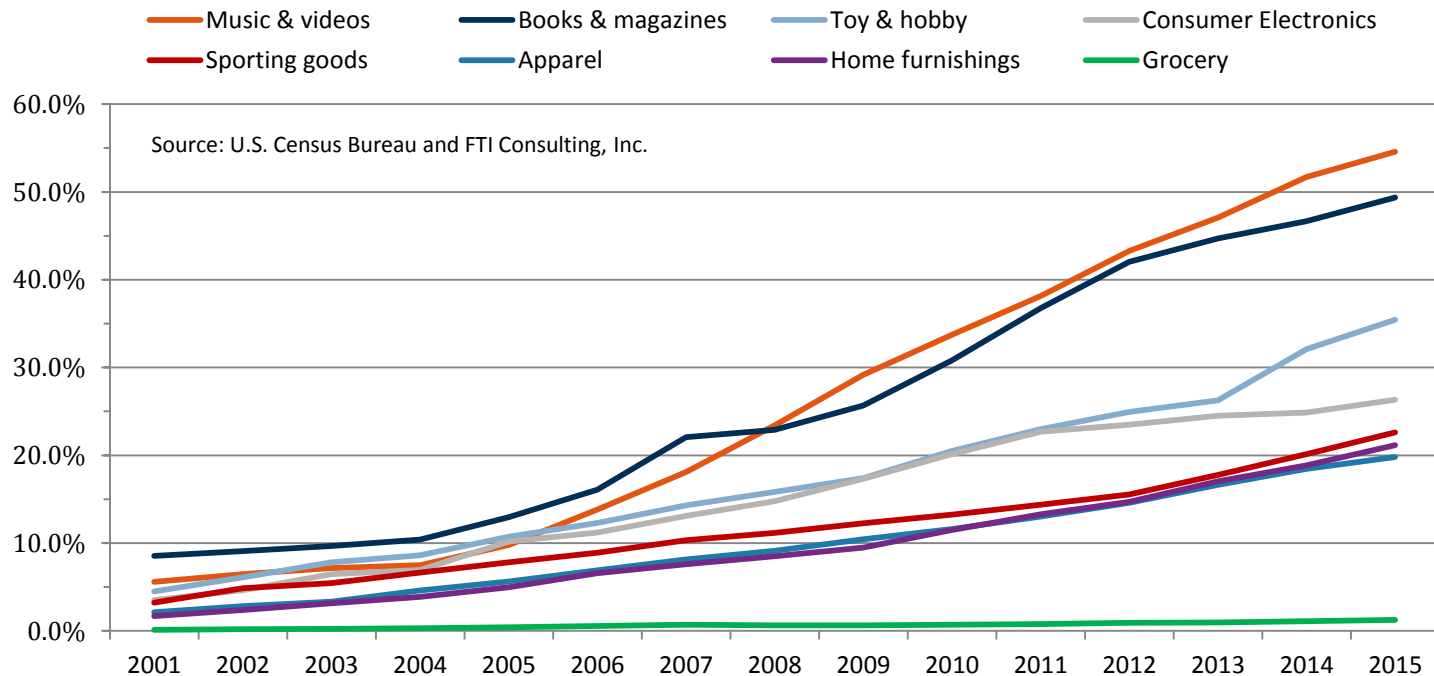


Source: In-store discretionary spending (we use the GAFO category as our proxy) and of non-store sales since 2011 as reported to the U.S. Bureau of the Census ("BOC"). The BOC requires that reporting retailers strictly separate their store sales from online sales, which are then reported by BOC in a separate category (NAICS Code 454; Non-Store Retailers, which includes online and catalog sales). So GAFO sales, as reported by the BOC, are stripped of their online component and reflect what we consider to be a best approximation of "pure" store-based performance for discretionary product categories.

U.S. online sales have become a big piece of the retail pie

- Online sales will approach \$450B in 2017, representing 12.5% of U.S. retail sales excluding auto and gas, and will continue to grow at a mid-teen rate through 2018.

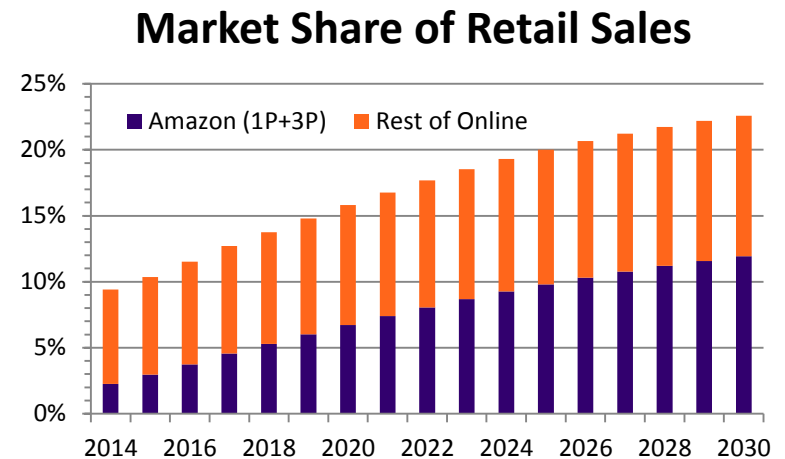
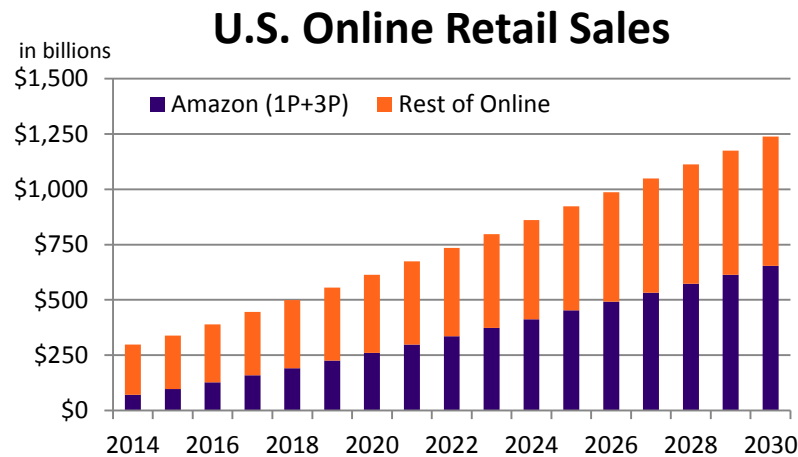
ONLINE SHARE OF SALES BY PRODUCT CATEGORY



Online is poised to growth at a 9.5% CAGR over the next decade

- U.S. online sales will approach \$1 trillion by 2026 compared to \$450 billion in 2016, and a doubling of its market share before it nears a ceiling of 25%.
- Most sales come from apparel, electronics, sporting good, toys, and home, which already have market shares near 20% share that could ultimately grow to 35%.

U. S. ONLINE RETAIL SALES FORECAST



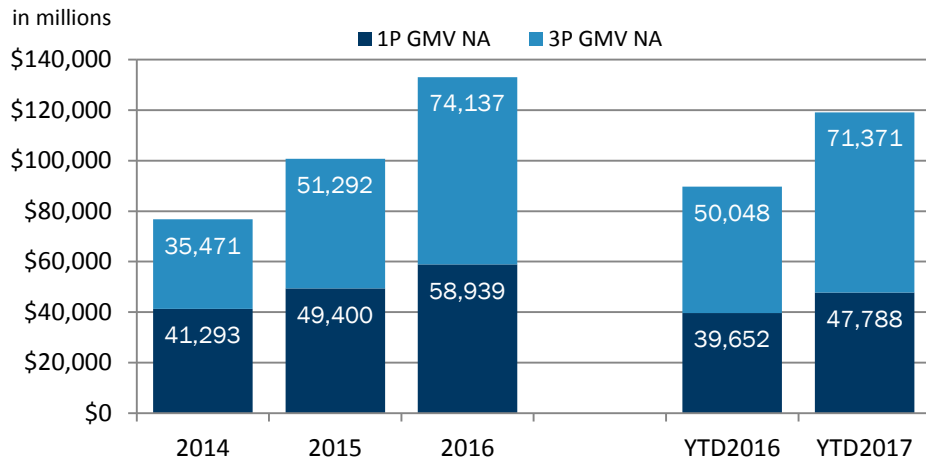
Source: US Census Bureau, SEC filings and FTI analysis

Amazon is getting the biggest slice of the retail pie

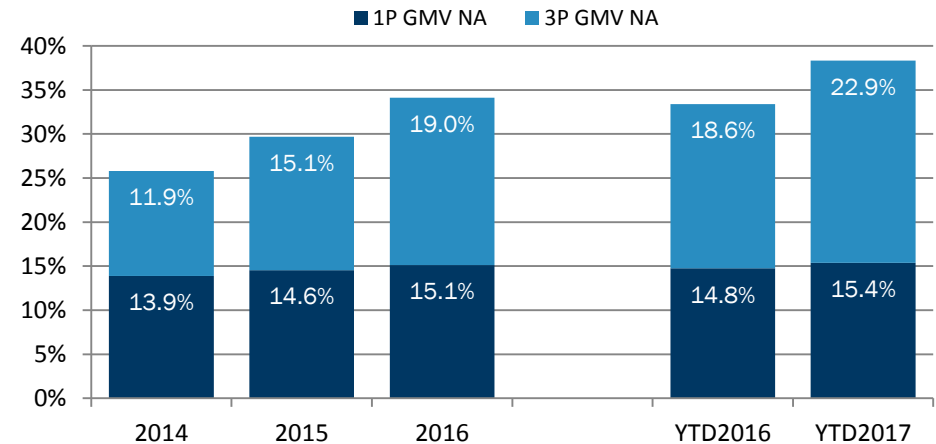
- Amazon's estimated market share of total U.S. online sales is approximately 35% when third-party sales are included (1P+3P)—and it is accelerating.
- 3P sales will account for nearly 60% of Amazon's retail sales in 2017.
- Nearly 60% of total online retail sales growth in 2016 went to Amazon (1P+3P). Its growth rate (YOY) is more than twice the growth of total online sales.

AMAZON'S SHARE OF US ONLINE RETAIL SALES

Amazon's Gross Merchandise Value
(North America GMV)



Amazon's Market Share of Online Sales
(North America)



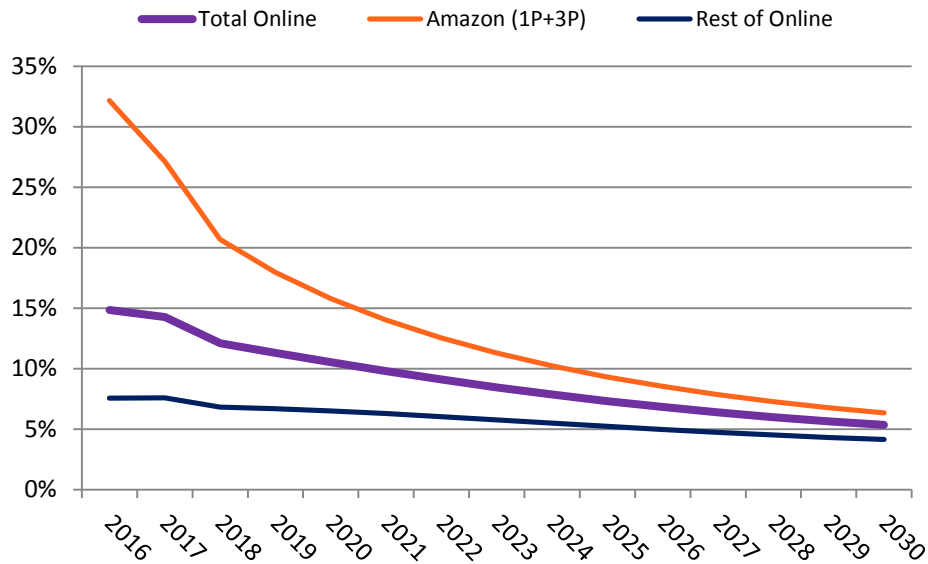
Source: US Census Bureau , SEC filings and FTI analysis

Amazon is getting the biggest slice of the retail pie (cont)

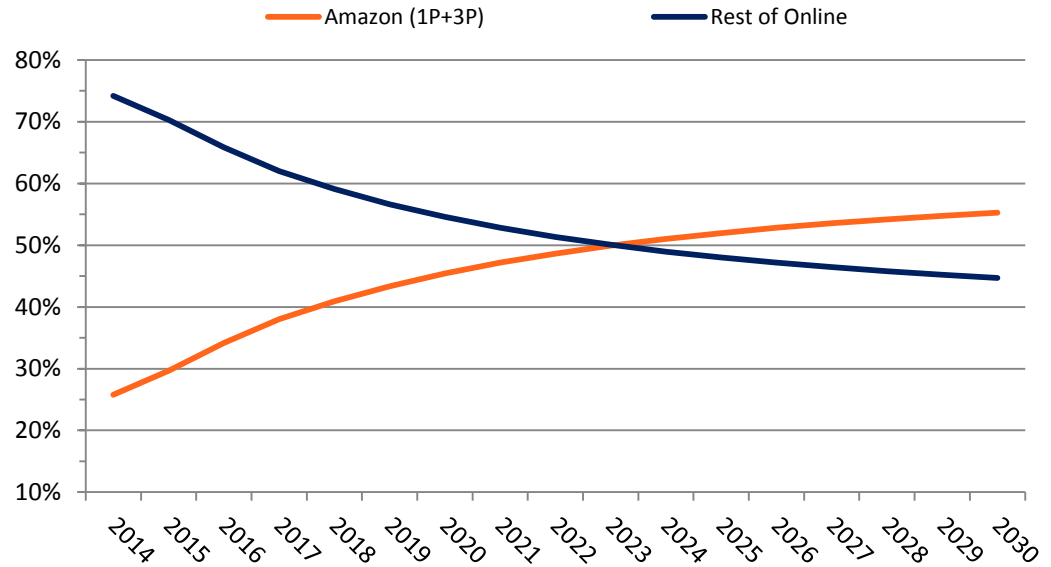
- While total U.S. online retail sales grew by 14.9% in 2016, it was only 8.0% excluding Amazon.
- Our forecast model expects Amazon's market share (1P+3P) of U.S. online sales to reach 54% in 2027 (11.5% of total retail sales).

AMAZON'S SHARE OF US ONLINE RETAIL SALES

U.S. Online Retail Sales Growth (YOY)



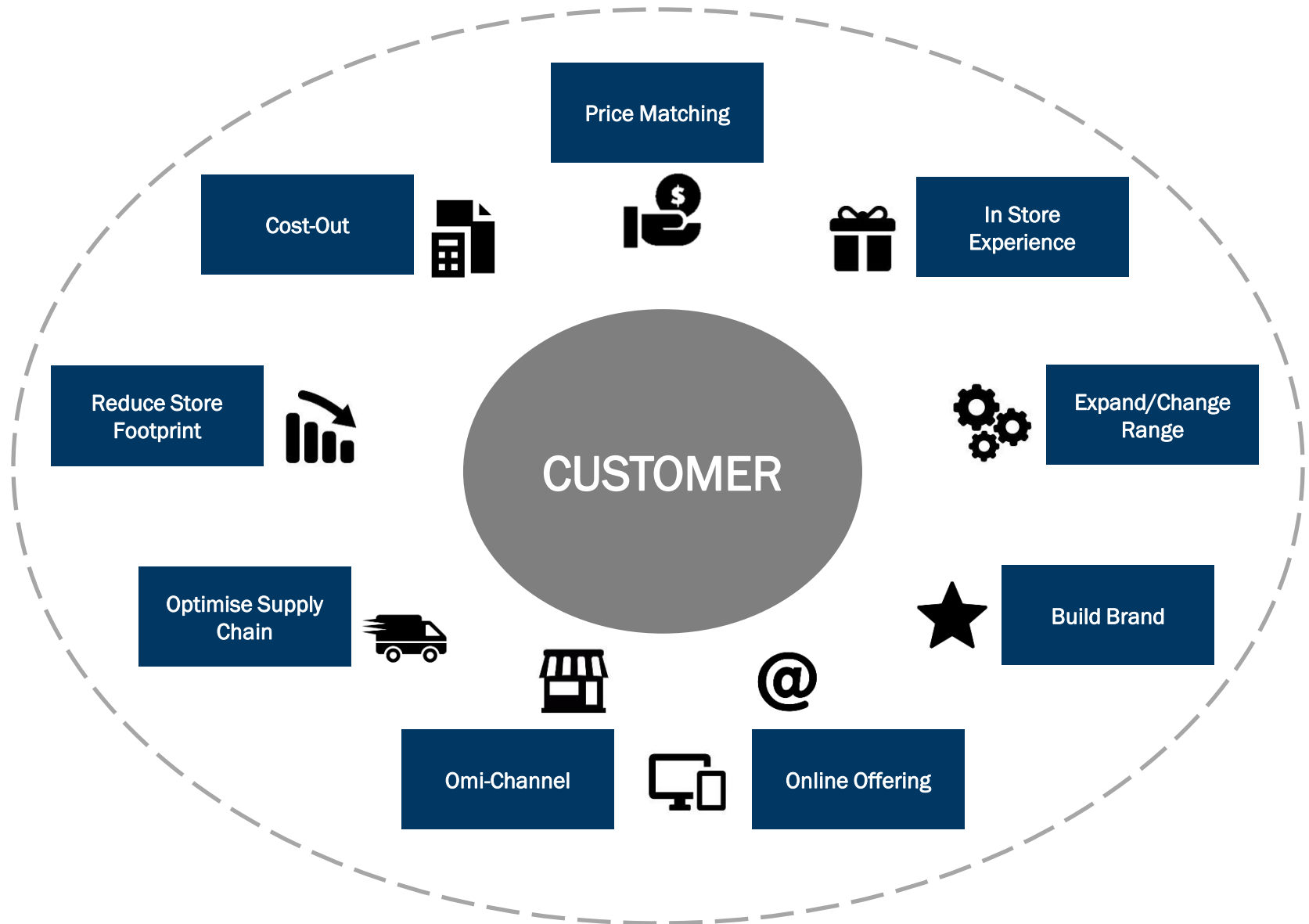
Market Share of U.S. Online Retail Sales



Source: US Census Bureau , SEC Filings and FTI analysis

How are Retailers responding

- Retailers are employing a number of strategies to maintain relevance, competitiveness and profitability.



Innovation and technology

- The retail ecosystem provides enormous opportunity through innovation, with technology the key enabler.



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