

US equities

e-Commerce: Beyond Amazon - an update | 22 March 2016

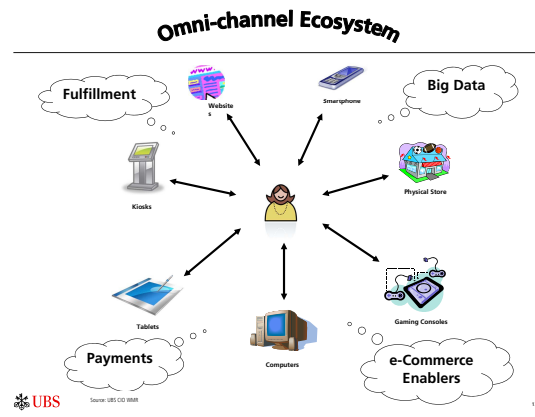
CIO WM Research

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Explosive growth in e-Commerce continues to alter the consumer landscape and omni-channel companies will lead the way. An omni-channel retailer is one that is completely agnostic to how, where and when a consumer shops or interacts with a brand. Long-term positive drivers of digital growth, including the rapid adoption of mobile devices, will hasten market share-shifts online.

e-Commerce thesis still on track

We continue to have high conviction that opportunities around the e-Commerce theme extend beyond just owning pure-play online shopping or e-Commerce companies like Amazon. US-based companies in consumer-focused industries such as retail, apparel, consumer packaged goods and restaurants will benefit as they take an omni-channel approach to their business and more consumers shift their shopping and spending on-line. In addition, firms are using digital marketing strategies to complement their on-line efforts, including social media, search, and big data, to name a few. Companies that facilitate e-Commerce transactions, from IT providers to the payment of goods, should also be beneficiaries of the e-Commerce theme. Since our initial report, the pace of change continues to accelerate as companies undertake omni-channel investments and this theme remains on track. All of the arguments that we laid out in our original report (*e-Commerce: Beyond Amazon*, 8 August 2013) and our last update (16 October 2015) are still valid today. Longer term, rapid adoption of mobile devices such as smartphones and tablets, combined with the convenience and selection on the Internet, will hasten market share-shifts online. The digital shift has continued to gather speed with the transition to mobile happening even faster than expected.



Source: UBS CIO

A version of this report is available with specific security recommendations for US onshore investors. For a copy, please consult your UBS Financial Advisor.

What is omni-channel . . . a refresher

There is no bigger buzz-word among retailers today than omni-channel. You hear it in conversations with management teams and on almost every quarterly conference call. So what does it actually mean? Essentially, a true omni-channel retailer is one that is completely agnostic to how, where and when a consumer shops or interacts with their brand. The goal of omni-channel retailing is that a retailer's stores become an extension of the supply chain, in which purchases may be made in the store, but are researched through various methods. At an omni-channel retailer, all purchase channels are effortlessly connected providing a convenient and seamless way to shop. Pricing is typically consistent across all channels and purchases made online can easily be returned in store, and vice-versa. We find it interesting that Amazon opened its first brick-and-mortar bookstore in a bid to establish a physical presence where shoppers can not only purchase books but also a range of Amazon-made devices, including the Kindle tablet, the Fire TV set-top device and Echo, the company's home speaker and virtual assistant. We would not be surprised to see additional store openings this year.

Our stock selection process

In this report, we highlight companies across multiple industries that are exposed to the e-Commerce theme and that we expect to outperform the S&P 500 over a long-term holding period. The recommended list includes our best ideas in retail, restaurants, consumer staples, and technology. In developing our recommendations, we seek to identify companies that are omni-channel leaders with a growing percentage of sales coming from e-Commerce. We actively manage the list, removing names when they no longer meet our criteria and, where appropriate, adding new names that fit the bill.

Stocks must be listed on either the Sector Outperform or Sector Marketperform List from CIO Wealth Management Research (CIO WMR), or a 12-month rated Buy or Neutral recommendation by UBS Investment Research. UBS Investment Research is part of UBS Investment Bank (the UBS business group that includes, among others, UBS Securities LLC).

Appendix

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