

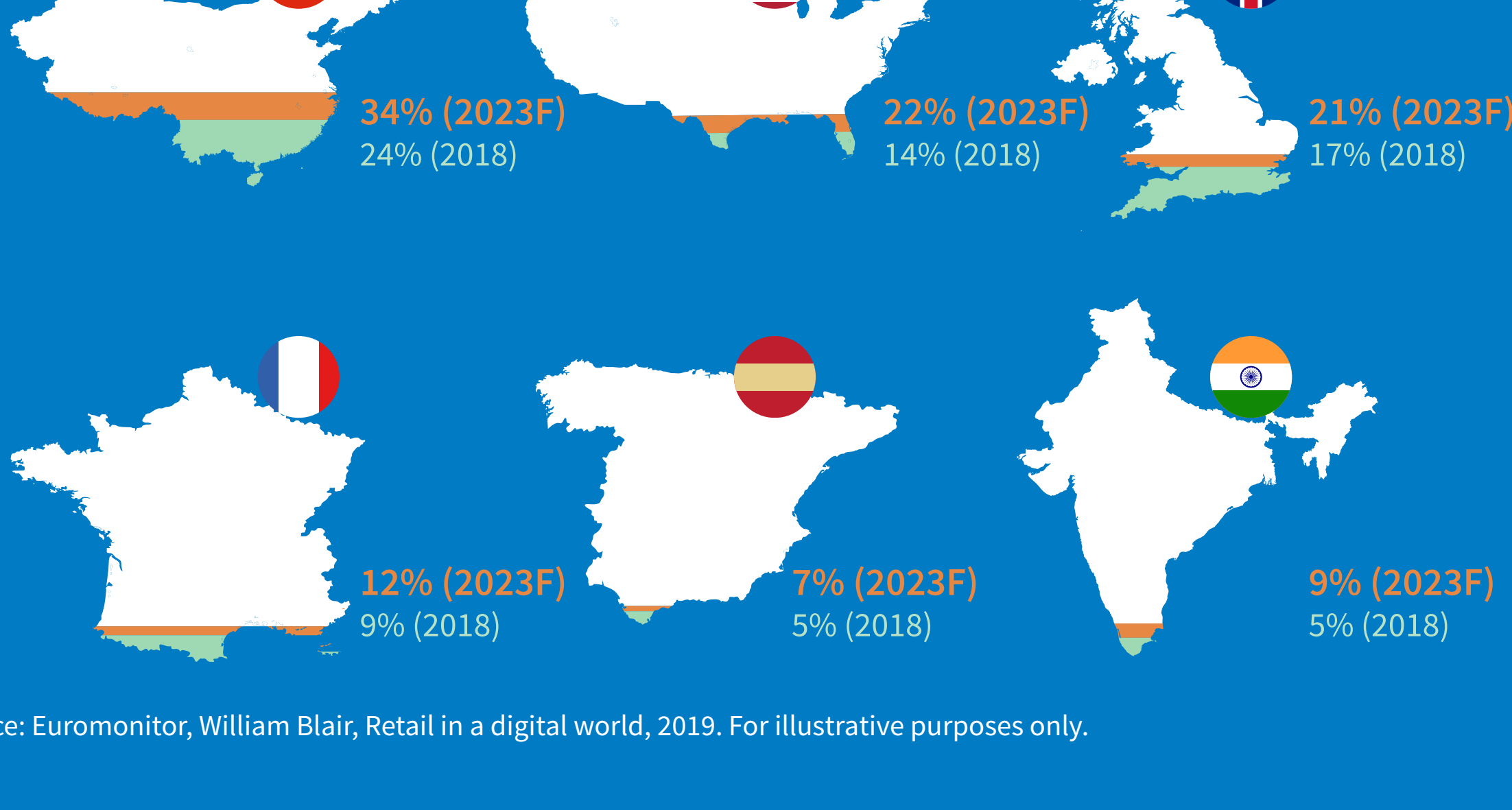
# What investors need to know about the digital economy

## Just the beginning of a multi-year investment theme...

Even though it feels like e-commerce has been around for a long time, just 11% of global retail sales are transacted online.<sup>1</sup> In our view, this should allow for many years of double-digit growth in the future.

## Online retail continues to take market share from offline retail

E-commerce penetration by country (as a % of total sales)



Source: Euromonitor, William Blair, Retail in a digital world, 2019. For illustrative purposes only.

We believe this growth is underpinned by two main drivers:



### Technology:

With the global adoption of smartphones – forecast to reach 3.8bn users in 2021<sup>2</sup> – consumers in developed and developing markets become ever more connected, and have the perfect tool to make informed purchase decisions 24/7.



### Demographics:

The younger and digitally savvy generation has certainly led the e-commerce boom. While millennials don't have the same spending power as older generations, they have been very good teachers to their parents and grandparents, and are now hitting their peak spending years.

## The 4 Ds driving growth in the digital economy

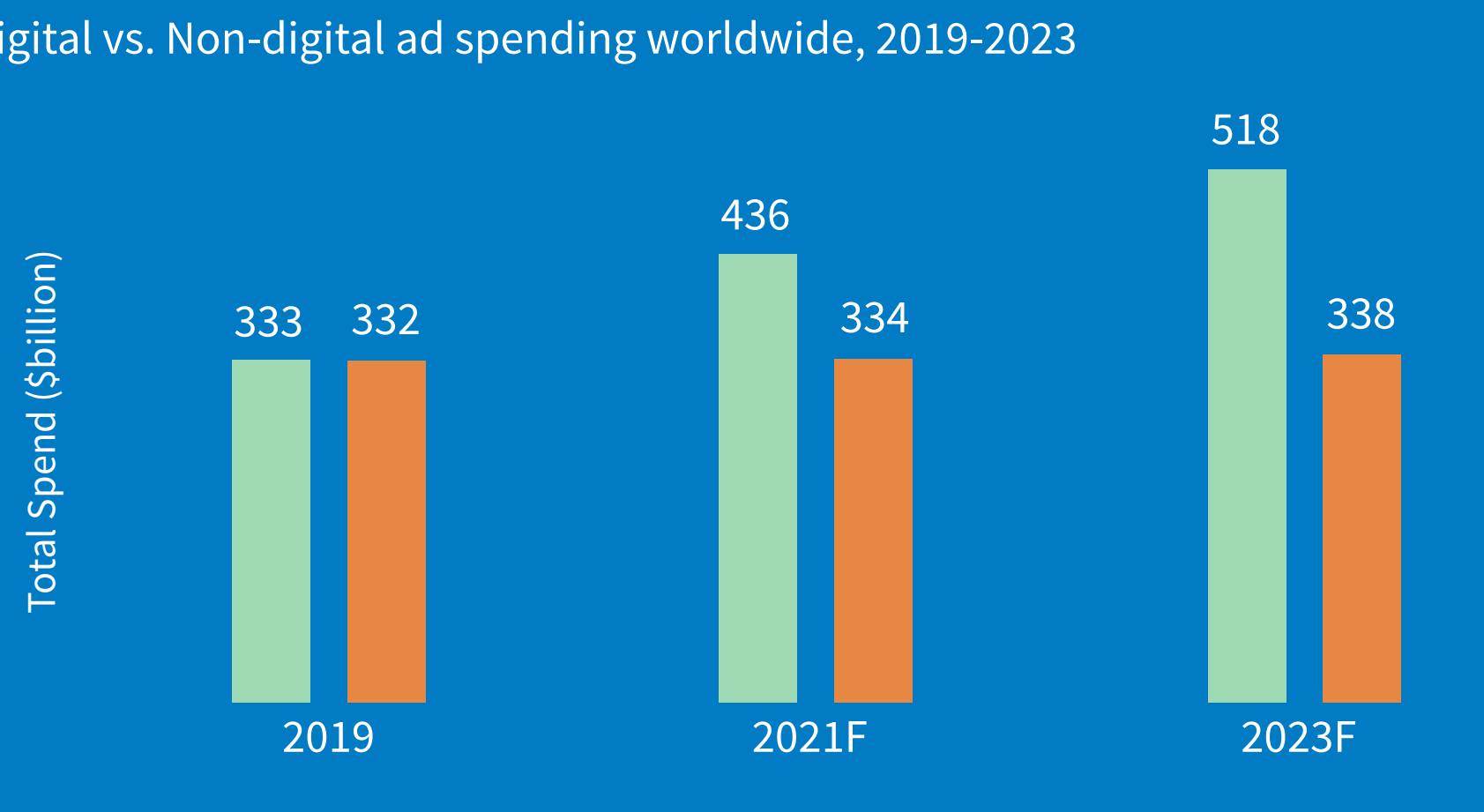
We see the aforementioned trends as creating opportunities across the entire e-commerce value chain as traditional businesses embrace the digital economy. We refer to these opportunities as the 4 Ds:

## D

### Discovery

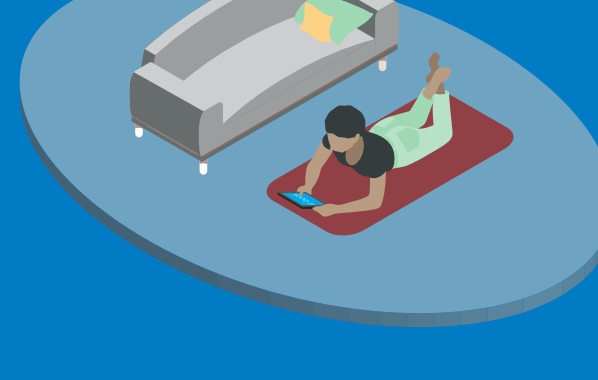
Search engines, online advertising and social media are increasingly the starting point when searching for and/or discovering products and services online.

Digital vs. Non-digital ad spending worldwide, 2019-2023



Source: eMarketer, February 2019

Examples of 'Discovery' companies include Tencent, a Chinese internet firm, and Hubspot, a US digital marketing specialist.<sup>3</sup>



## D

### Decisions

E-commerce, web portals and mobile apps provide consumers with convenient and reliable product choices. Companies involved in the decision-making process are dominated by online disruptive firms taking market share from traditional businesses.



#### Example 1: Ocado Group

The UK online grocery retailer specialist continues to grow by gaining market share in its domestic market, and by expanding internationally with foreign partners using its unique and proprietary technology.

**only 5.1%**

Global grocery e-commerce penetration level.

Source: BOFAM, Kantar, GfK, Intage - Global eCommerce, October 2019



#### Example 2: Electronic Arts

The video gaming company generates its revenues from products (e.g. FIFA 2020) and services, which include downloadable content, subscriptions and other in-game services.

**\$159bn**

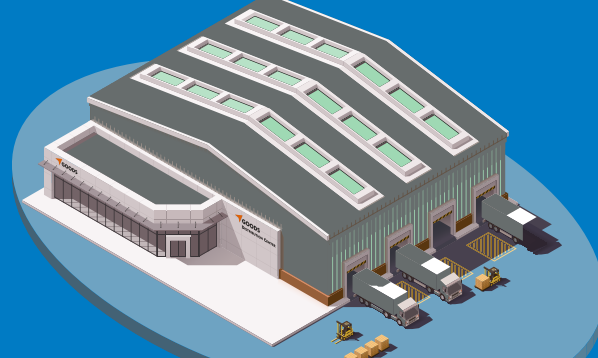
Estimated annual video gaming revenue worldwide in 2020, with an 8.3% CAGR\* to 2023. The rapid development of e-sports and the upcoming launch of the new Xbox and PlayStation consoles should support further growth in the industry.

Source: Newzoo, 8 May 2020  
\*Compound annual growth rate

## D

### Delivery

The proliferation of e-commerce has led to rapid growth within digital payments, and is also pushing companies to look for supply chain efficiencies to deliver goods everywhere within a specified timeframe – also known as 'same-day' or 'next-day' delivery.



#### Example 1: Goodman Group

The Australian logistics real estate firm, which owns strategically placed warehouses (i.e. close to airports and highways), has seen increased demand for distribution centres from retailers to third-party logistics groups.

**c.400 properties**

under 17 countries around the world

Source: Goodman as at 31 March 2020



#### Example 2: PayPal

The online payments provider has benefited from the secular shift towards e-commerce, helping to grow its total payments volume.

**12.4bn**

The annual number of payment transactions processed by PayPal globally in 2019, more than double the 6.1bn processed in 2016.

Source: PayPal's number of payment transactions from 2012 to 2019, Statista, 7 February 2020

## D

### Data & Enablers

'Data & Enablers' firms help not only companies that are digital natives, but also digital migrants who need to transform themselves to remain relevant. Traditional businesses need to embrace the digital economy, and any start-up business that wants to thrive needs to be thinking about a digital strategy first.



#### Example 1: Atlassian

A supplier of software tools used for project management and collaboration to help teams of software developers, IT managers and knowledge workers complete their work remotely and more efficiently.

**10mn**

Number of active monthly users of Atlassian cloud products.

Source: Atlassian, data accurate in 2020



#### Example 2: Five9

A provider of cloud contact centre software. The company helps businesses to transform and enhance their client service centre to deliver a better experience to their customers.

**\$24bn**

Estimated size of the contact centre market, with just 10-15% penetrated in the cloud.

Source: Company estimates, Gartner estimates, October 2018; MZA estimates, October 2018.

*"We believe the digital economy is a multi-year investment theme. As such, we believe the ongoing shift from offline to online will continue to benefit trends such as online commerce, digital media consumption, electronic payments and digital transformation.*

*The COVID-19 crisis has truly been a black swan event. Even though it is hard to forecast the duration or the magnitude of the effects, we firmly believe that the trends associated with the digital economy remain intact, and could play out even stronger once the turmoil is over. It is our view that any long-term investor should resist panicking and, instead, recognise the opportunities on offer."*



Jeremy Gleeson, CFA  
Digital Equity Portfolio Manager, AXA Investment Managers

Sources:  
1 AXA IM, BOFAM – Global eCommerce, October 2019  
2 Number of smartphone users worldwide from 2016 to 2021 (in billions), Statista, 28 February 2020  
3 All stocks mentioned are for illustrative purposes only and should not be considered as advice or a recommendation for an investment strategy.

# The Digital Economy is here and bigger than you think.

Want to learn more?  
Click here to visit our website on the Evolving Economy