SPECIAL REPORT - ONLINE RETAIL

ASOS vs. Boohoo

FREDERICK & OLIVER

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WELCOME

The global, retail e-commerce space is gargantuan and expanding at a rapid rate.

In the five years from 2014 to 2019, global online retail sales more than doubled from $1.3tn to $2.9tn, averaging year-on-year growth of over 20%.

More impressive still, was 2020's online spending of $4.3tn, a 27% increase from the pre-pandemic year of 2019.

Of course, amid the global lockdown restrictions of 2020, 'stay-at-home-stocks' benefitted. Specifically, those present in technology and e-commerce sectors. For example, with cinemas closed, **Netflix** shares rose 70% in 2020. With gyms closed, **Peloton** shares rallied 450% and with shopping centres shut, **Amazon** shares gained 80%.

According to analysts at Bank of America, the growth in online retail sales of 2020 is just the beginning, predicting revenue in the companies it covers (**ASOS, Zalando, Boohoo, THG, Farfetch, Zur Rose** and **Shop Apotheke**) to more than double between 2020 and 2025.

"We believe these businesses are not simply pandemic beneficiaries, they are structural winners," citing the pandemic has "irreversibly accelerated changes in consumer behaviour" forecasting a further 22% revenue growth this year.

We agree with Bank of America's sentiment. Lockdown restrictions may have boosted online retail sales but the year-on-year growth of e-commerce, coupled with the recent demise of the High Street, simply evidenced an already established transition from bricks-to-clicks.

Moreover, online purchasing is second-nature to younger generations, whom happen to be the target audience for many online retailers, especially those in the fashion and clothing space.

A recent survey conducted by Piper Sandler, found teenagers' top spending priorities to be food and clothing.

Male teenagers spent 23% of their income on food, followed by 16% on clothing, whilst females spent 29% of income on clothing and 24% on food.

Seasonal change usually instigates a wardrobe refresh and this year, as lockdown measures ease, there appears to be added incentive to invest in new garments ahead of socialising with friends and family for the first time in many months.

In fact, recently published statistics from Nielsen Research appear to confirm this as supermarkets, not necessarily renowned for their courture, experienced a doubling in revenue from clothing sales in March as non-essential outlets remain closed.

In this report we focus on UK listed online fashion firms **ASOS** and **Boohoo.** Both companies operate solely online, have benefitted from the collapse of the UK High Street and experienced phenomenal growth in recent years.

Remember, not all trades prove profitable and we champion the market maxim 'cut your losses'.

Good luck with your investments.

Frederick & Oliver

ASOS Plc

ASOS PLC HAS JUST REPORTED RECORD PROFITS, SHARES HAVE RALLIED 500% IN A YEAR. IS NOW THE TIME TO BUY?

Just this morning ASOS Plc announced a whopping 275% jump in half-year profit to £106m from £30m a year earlier.

In the six month period to 28th February, the company added 1.5m new customers, to total 24.9m, resulting in increased sales of 24%.

ASOS said acting swiftly to focus its offering on activewear and leisurewear, from the usually popular 'going-out' styles, played a big part in its success during the height of lockdown restrictions.

The company's online shopping platform allows customers to buy popular fashion brands, as well as clothing from its own, more affordable, brands. The technology behind the online store is also accountable for the company's ongoing success. The platform collects the user's data, learns the user's favourite brands, styles, colours and sizes, and uses this information to provide each shopper with personal recommendations.

Whilst the City rightly lauds ASOS's latest trading statement, truth is, the company has been performing for years. Over the past 5 years, active customers and revenue has doubled:

- 2016 **12.4m** users **£1.45bn** revenue
- 2017 **15.4m** **£1.92bn**
- 2018 **18.4m** **£2.42bn**
- 2019 **20.3m** **£2.73bn**
- 2020 **23.4m** **£3.26bn**

The past 5 years have rewarded loyal shareholders with more than 100% in capital appreciation, whilst the more active traders could be up as much as 500% had they bought at the March 2020-lows of £10 per share.

Whilst the success of ASOS can be greatly attributed to its technology and fast-thinking management team, it has also come at the expense of the High Street.

Bricks-and-mortar retailers face exceptionally high operating costs versus online peers, including but not limited to, purchase or lease of store, store fit-out, business rates, utility bills and staffing costs. When multiplied by tens or hundreds, a retail chain can be burdened with serious financial obligations before they have sold a single item.

Fending off online competition was proving to be a 'death by a thousands cuts' for many traditional retailers, and when the COVID-19 pandemic led to the protracted closure of non-essential stores, it soon became apparent many would never reopen.

The most spectacular collapse in the retail space was Philip Green's Arcadia Group, the owner of iconic High Street brands Topshop, Topman and Miss Selfridge.

And who swooped to purchase the brands? ASOS. For the price of £265m ASOS bought Arcadia Group's prized brands but not its stores or warehouses.

"The acquisition of these iconic British brands is a hugely exciting moment for ASOS and our customers and will help accelerate our multi-brand platform strategy," said ASOS Chief Executive Nick Beighton.

Growth for ASOS shows no signs of slowing, revenue doubled from 2016 to 2020, and analysts at Bank of America predict revenue will double again between 2020 and 2025.

COMPANY INFORMATION

ASOS Plc operates as an online fashion retailer in the United Kingdom, the United States, Australia, France, Germany, Spain, Italy, Sweden, the Netherlands, Denmark, Poland, and Russia. It offers womenswear and menswear products.

Listing	Market Cap	52-week range	Dividend yield
FTSE AIM 100	£5.4bn	2035p - 5995p	Nil

CHART OBSERVATIONS

Current Price	52-week Low	52-week High	Distance to Low	Distance to High
5400p	2035p	5995p	-62%	+11%

Boohoo Plc

BOOHOO PLC ENDURED A ROLLERCOASTER 2020. ARE ITS TROUBLES BEHIND IT AND IS NOW THE TIME TO BUY?

On the previous page we learned of ASOS's record earnings period. Boohoo's next trading statement is due on May 5th.

Do you think Boohoo will have enjoyed an equally impressive trading period?

Whilst Boohoo has benefitted from many of the same circumstances as ASOS in recent times (online retail growth, lockdown restrictions, closure of non-essential stores, death of the High Street) it endured a rollercoaster 2020 on allegations of poor working practices at some of its suppliers in Britain and abroad, resulting in auditor PwC resigning.

Let's take a look at the share price volatility in more detail:

- Jan - Mar -60% COVID-19 outbreak
- Mar - Jun +200% Recovery amid talk of lockdown
- Jun - Jul -55% Allegations of slave labour
- Jul - Oct +100% Recovery amid lockdown
- Oct - Nov -50% PwC resigns as auditor
- Nov - Dec +60% Rally ahead of Xmas trading

Boohoo sells clothing from its own labels as well as those labels it has purchased in recent years, including Karen Millen, Coast, Debenhams, Dorothy Perkins, Wallis and Burton - the latter three from the now collapsed Arcadia Group. Like ASOS, Boohoo acquired the brands but declined to take on the stores.

Boohoo has achieved aggressive sales growth over the past 5 years, averaging 52% revenue growth year-on-year.

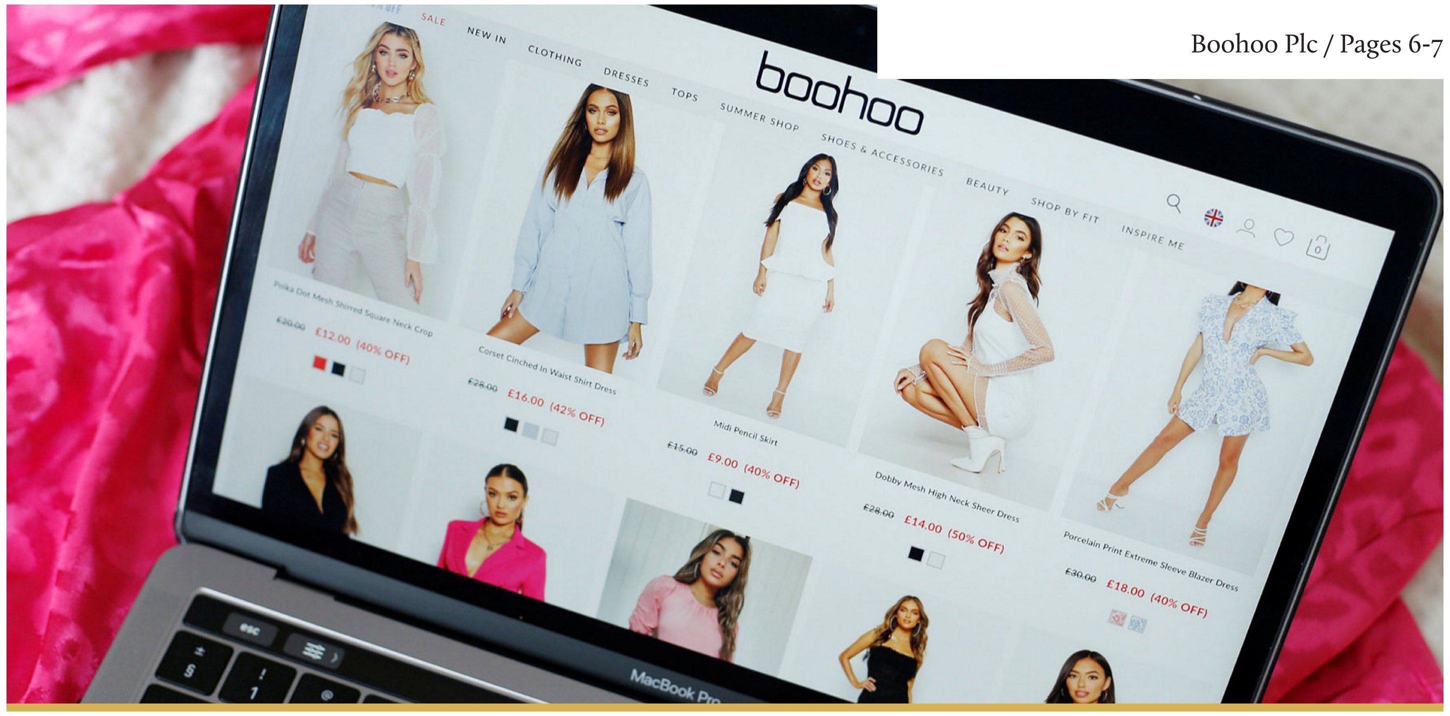
Some say this success is attributable to the company's social media endeavours. The company has engaged its 20-somethings audience online, with 7.2m following the Boohoo brand on Instagram, whilst the PrettyLittleThing brand boasts 13.1m followers. Such is the convenience of this technology that followers, if they like the clothes worn by models in Instagram posts, can simply click through to purchase goods.

Whilst we patiently await Boohoo's trading update on May 5th, the company has informed the market the numbers are likely to be good.

In January the company raised its annual revenue target after a strong Christmas trading period coupled with increased demand during lockdown restrictions, had led to a 42% increase in revenues over the 10-month period to the end of 2020, exceeding the already increased target of 36%.

Sales in the last 4 months of 2020 were up 40% compared to rival ASOS's 23% increase over the same period.

This report is titled ASOS vs. Boohoo - suggesting investors should decide between buying shares in one or the other. If you believe in online retail, why can't you buy shares in both?



COMPANY INFORMATION

Boohoo Group Plc operates as an online fashion retailer in the United Kingdom and internationally. The company designs, sources, markets, and sells clothing, shoes, accessories, and beauty products.

Listing	Market Cap	52-week range	Dividend yield
FTSE AIM 100	£4.4bn	198p - 433p	Nil

CHART OBSERVATIONS

Current Price	52-week Low	52-week High	Distance to Low	Distance to High
343p	198p	433p	-42%	+26%

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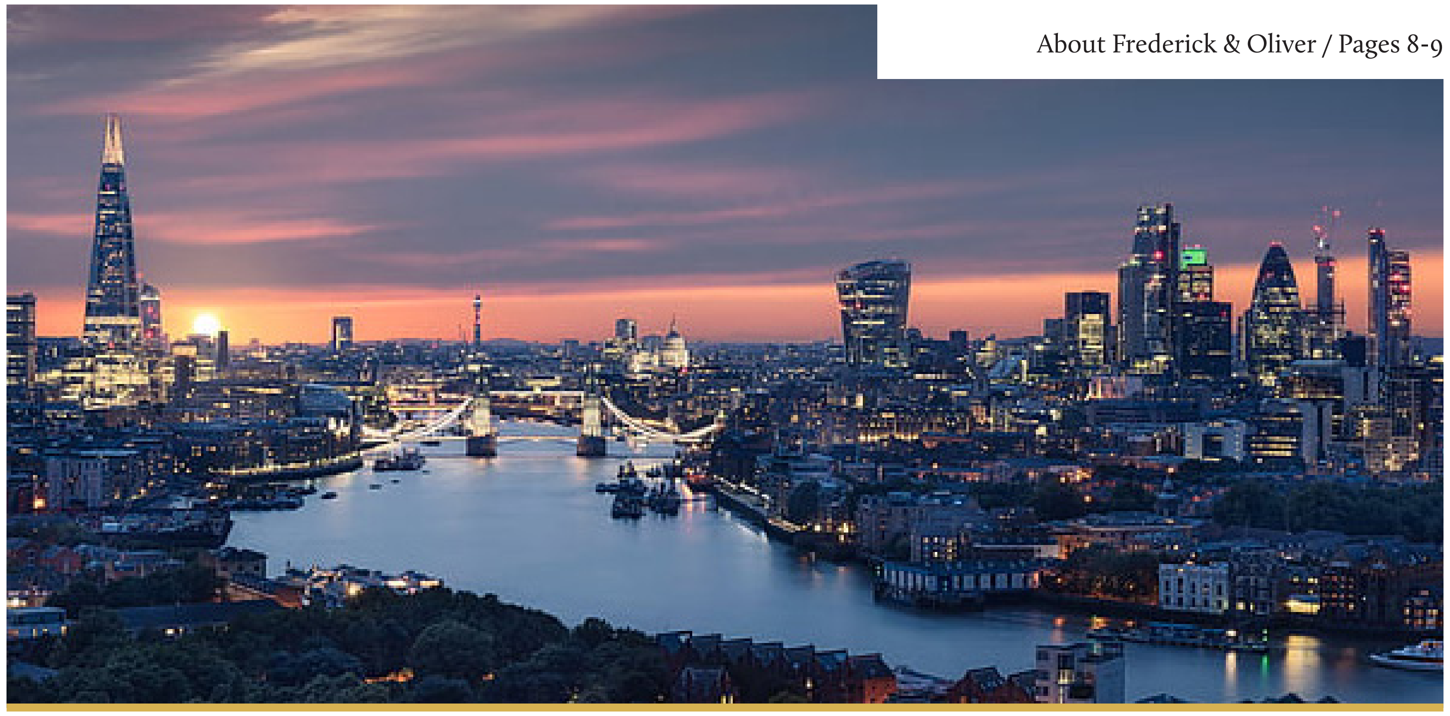

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