

Walmart to Acquire Bonobos for \$310 Million in Cash



- 1) Walmart announced the signing of an agreement to acquire Bonobos, Inc., a leading apparel brand built on the Internet, for \$310 million in cash.
- 2) Following the closing, Bonobos will report to Marc Lore, President and CEO of Walmart U.S. eCommerce. The Bonobos and recently-acquired ModCloth brands will be offered on Jet.com and in a variety of countries over time.
- 3) The acquisition, subject to regulatory approval, is expected to close toward the end of the second fiscal quarter this year, or the beginning of the third quarter.
- 4) Bonobos offers a young and loyal male millennial customer base, which is less price-sensitive and focuses greatly on quality.
- 5) Although the acquisition is likely to hurt profitability slightly in the short term, it can offer major benefits over the long term as Walmart scales up the brand.

Walmart Enters into Agreement to Acquire Bonobos

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Rationale for the Acquisition

As mentioned in our earlier analysis on [Walmart's acquisition strategy](#), apparel is now the frontier of the battlefield between Walmart and Amazon. The agreement to acquire Bonobos demonstrates Walmart's continued determination in remaining competitive and tackling Amazon head on.

Bonobos is an e-commerce-driven apparel company headquartered in New York City that designs and sells men's clothing. Bonobos offers a full line of men's suits, trousers, denim, shirts, shorts, swimwear, outerwear and accessories. The company was founded by Andy Dunn and Brian Spaly, and launched exclusively online in 2007. The brand expanded offline by opening its first Guideshop in 2012, where customers can make an appointment with a personal associate and try on products on-site. The company is currently running 36 Guideshops across the US. Bonobos has raised more than \$125 million in venture capital from investors.

Bonobos Offers a Highly Sought-After Customer Base

Similar to previously acquired online brands, Bonobos offers a young and loyal male millennial customer base with generally above-average incomes. With the acquisitions, Walmart is making a move to appeal to customers who focus greatly on quality and a strong brand. As Walmart has likely saturated its current customer base, the retailer is seeking to expand it to include these higher-income individuals.

Walmart's acquisition strategy in the e-commerce market appears to be following a pattern. The acquisitions of Modcloth, Moosejaw, Shoebuy and now Bonobos underscore that Walmart is determined to revolutionize its apparel offerings. Walmart's winning formula of focusing on mass-market standard offerings across all product categories has brought the company unprecedented success, and consumers can easily purchase relatively standardized products at all of its shopping centers. However, in order to target a niche group of customers with specific preferences, Walmart needs products that are more personalized in design and style, which would not be practical within its current business configuration. These recent acquisitions of niche retailers appear to be the catalyst to drive future growth.

Our View

Consistent with our previous analysis, we believe the acquisition is likely to hurt profitability slightly in the short term and turn more positive over the medium to long term. These newly-acquired companies, including Bonobos, have likely not turned profitable, and are still burning cash in order to drive sales growth. As the profitability of an e-commerce business relies heavily on scale, Walmart's challenge is to scale up these businesses. Walmart will be successful if it can generate incremental sales from e-commerce that more than offset the cannibalization of sales from its brick-and-mortar stores.

From a financial perspective, Walmart has a more-than-adequate balance sheet to fund the acquisition, hence the announcement of an all-cash deal. As of April 30, 2017, Walmart had more than \$6.5 billion in cash and equivalents. The recent e-commerce-related acquisitions are likely to strengthen Walmart's expertise in online business, and provide valuable opportunities for management to combine e-commerce with its traditional business.

Finally, this acquisition spree of online brands is likely to continue, as Walmart has made a major investment in the category with Jet.com and the other acquisitions, and recent results have been very encouraging.



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