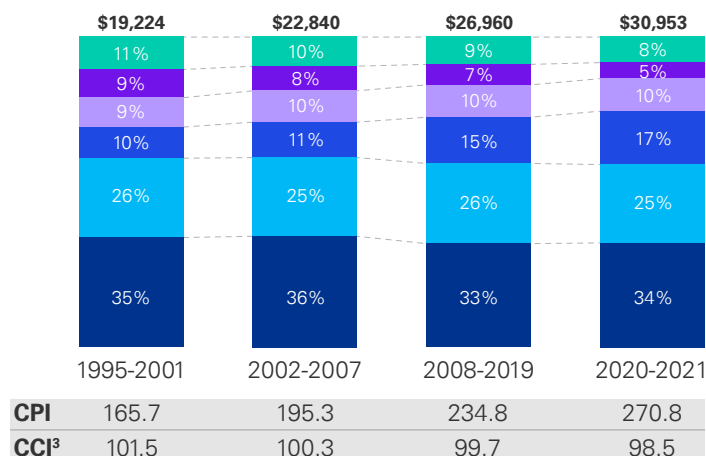# C&R portfolios 2023:
Business cycle implications

Business cycles can result in significant shifts in investment returns in the consumer & retail (C&R) sector. As 2023 begins with widespread concerns about a possible economic downturn, we look at how various C&R subsectors fared in previous downturns. What kind of companies lost the most value? Which ones did better in recoveries? Who was able to preserve margins when sales dipped? As we enter a new business cycle, C&R companies should consider optimizing their asset portfolios to best position themselves to generate sustainable total shareholder return (TSR) in this business cycle. Based on our analysis, here are six observations that may help to explain drivers of sustainable TSR in the C&R sector. We believe these observations can help C&R executives make portfolio decisions in 2023.

Observation 1:

From 1995 to 2021, the distribution of consumer spending shifted

Healthcare and entertainment spending accounted for a larger share of wallet while apparel, transportation, and food account for a smaller share of wallet.

Distribution of average consumer spend[1] by consumer unit by business cycle

	1995 to 2021 $\Delta\%$[2]	**CAGR 1995 to 2021**
Total spend	–	1.8%
Apparel	-4.0%	-0.3%
Entertainment	1.1%	2.2%
Healthcare	7.2%	3.8%
Food	-0.3%	1.7%
Transportation	-1.7%	1.6%
Other[4]	-2.2%	0.9%

Commentary:

- Aside from Healthcare spend increase, Entertainment increased as a share of wallet by 1.1 percent for the average consumer.

- Conversely, Apparel (-4.0 percent) and Transportation (-1.7 percent) experienced the largest discrete share of wallet declines.

Notes: (1) Proportion of sub-sector expenditures calculated as an average of total sub-sector expenditures for each period adjusted by CPI; (2) Sub-sector revenue share of wallet change from 1995-2021; (3) Consumer Confidence Index; (4) Includes Misc., Personal Care, Alcohol, Tobacco, Reading

Source: US Census Bureau consumer spending data

Methodology: We examined the TSRs of 21 consumer-facing subsectors from 1995 through Q2'22 to understand the drivers of sustained TSR growth. This period captures four business cycles (as defined by the National Bureau of Economic Research), and as such, significant events such as 9/11 and COVID-19 are covered. KPMG examined data on 589 public companies that traded during the time span. Acknowledging that survivorship bias impacts this analysis, we still believe this study is germane to 2023 portfolio positioning.
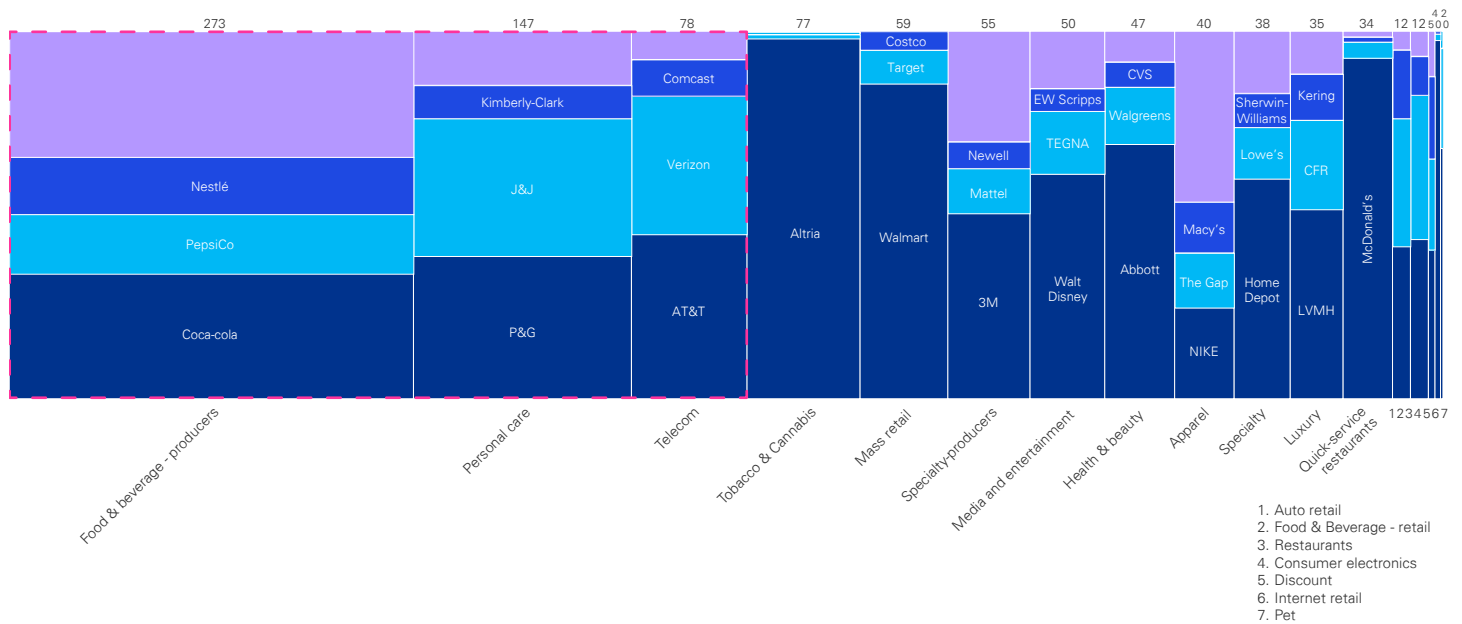
Observation 2:

Change in spend likely contributed to the changing C&R company landscape

1995 Food and beverages and personal care made up nearly a third of the total market cap among the Consumer and Retail sample.
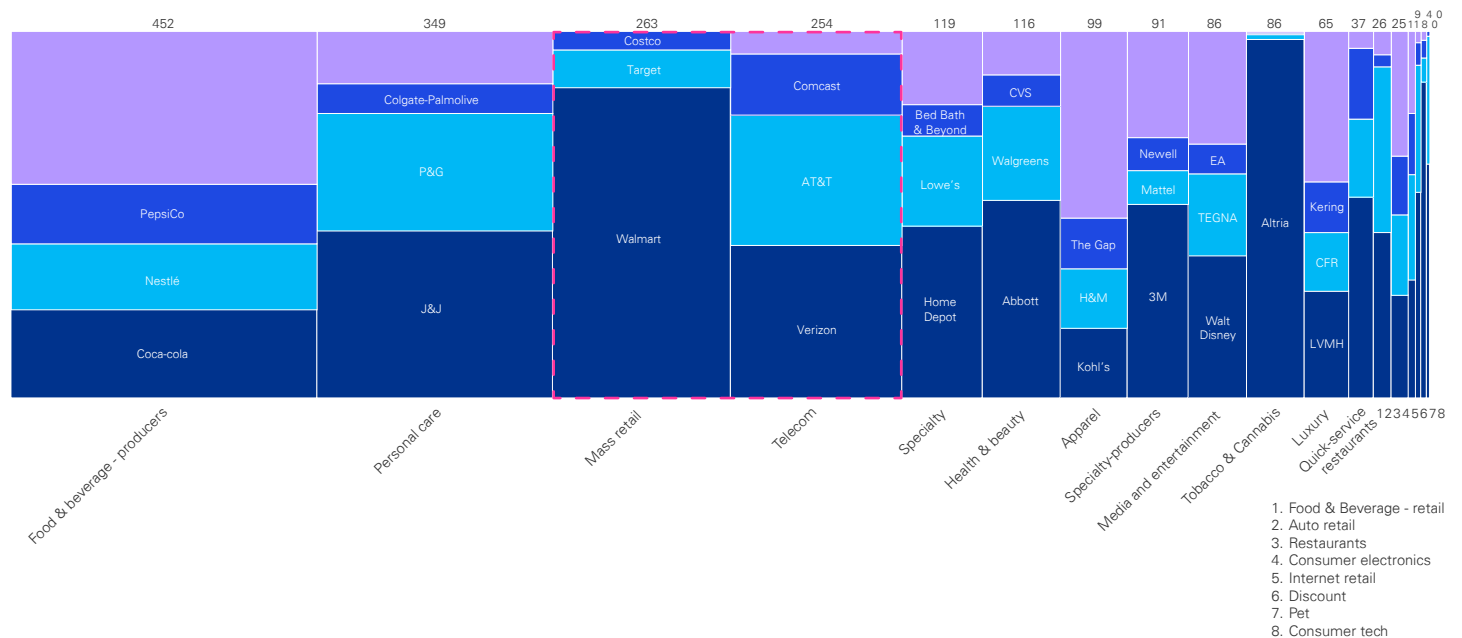
Market cap by sub-sector
1995, $1.0t, n=184

Sub-sectors (left to right): Food & beverage - producers (273), Personal care (147), Telecom (78), Tobacco & Cannabis (77), Mass retail (59), Specialty-producers (55), Media and entertainment (50), Health & beauty (47), Apparel (40), Specialty (38), Luxury (35), Quick-service restaurants (34), 1-2-3-4-5-6-7 (12, 12, 5, 0, 0, 4, 2)

Companies shown: Nestlé, PepsiCo, Coca-cola, Kimberly-Clark, J&J, P&G, Comcast, Verizon, AT&T, Altria, Costco, Target, Walmart, Newell, Mattel, 3M, EW Scripps, TEGNA, Walt Disney, CVS, Walgreens, Abbott, Macy's, The Gap, NIKE, Sherwin-Williams, Lowe's, Home Depot, Kering, CFR, LVMH, McDonald's

1. Auto retail
2. Food & Beverage - retail
3. Restaurants
4. Consumer electronics
5. Discount
6. Internet retail
7. Pet

2002 From 1995 to 2002, the market caps for mass retail and telecom grew the most (among major subsectors) :3.4x and 2.3x, respectively.

Market cap by sub-sector
2002, $2.1t, n=265

Sub-sectors (left to right): Food & beverage - producers (452), Personal care (349), Mass retail (263), Telecom (254), Specialty (119), Health & beauty (116), Apparel (99), Specialty-producers (91), Media and entertainment (86), Tobacco & Cannabis (86), Luxury (65), Quick-service restaurants (37), 1-2-3-4-5-6-7-8 (26, 25, 11, 8, 0, 9, 4, 0)

Companies shown: PepsiCo, Nestlé, Coca-cola, Colgate-Palmolive, P&G, J&J, Costco, Target, Walmart, Comcast, AT&T, Verizon, Bed Bath & Beyond, Lowe's, Home Depot, CVS, Walgreens, Abbott, The Gap, H&M, Kohl's, Newell, Mattel, 3M, EA, TEGNA, Walt Disney, Altria, Kering, CFR, LVMH

1. Food & Beverage - retail
2. Auto retail
3. Restaurants
4. Consumer electronics
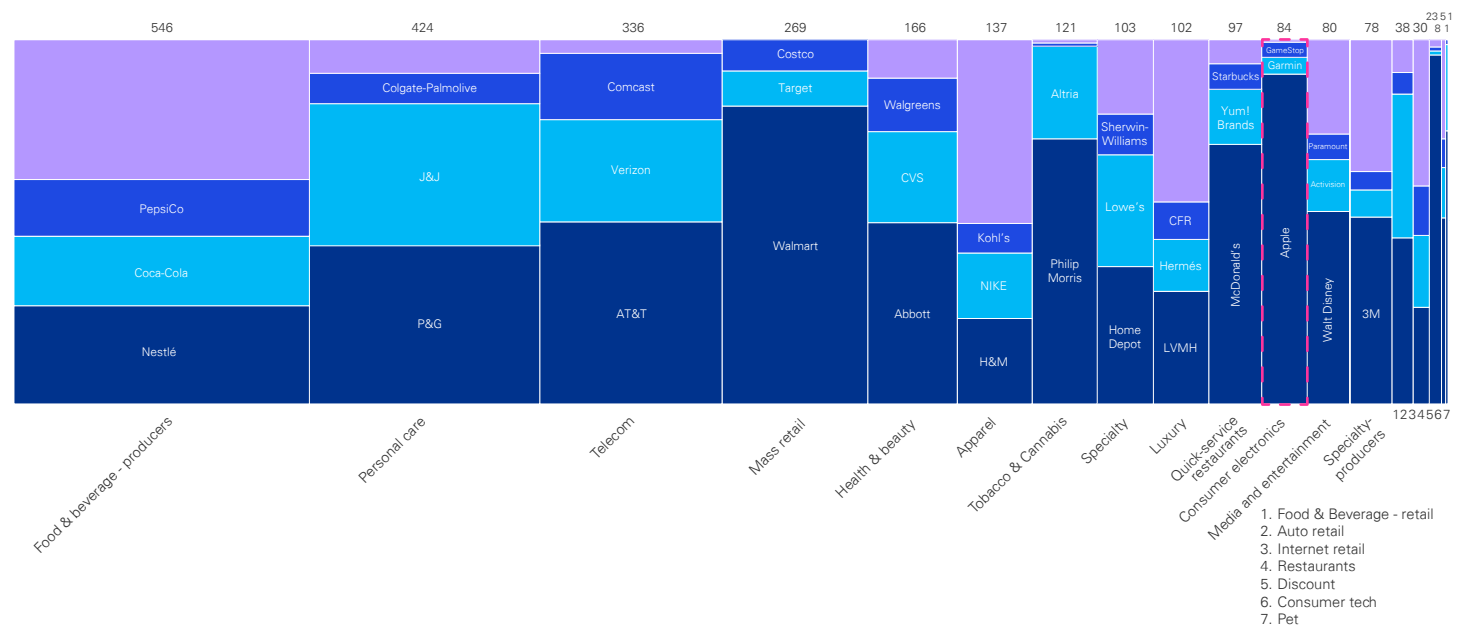5. Internet retail
6. Discount
7. Pet
8. Consumer tech

Source: S&P Capital IQ, accessed 10/21/22

2008 Consumer Electronics outpaced all other sub-sectors from 2002 to 2008 with an 8.2x growth in market cap.
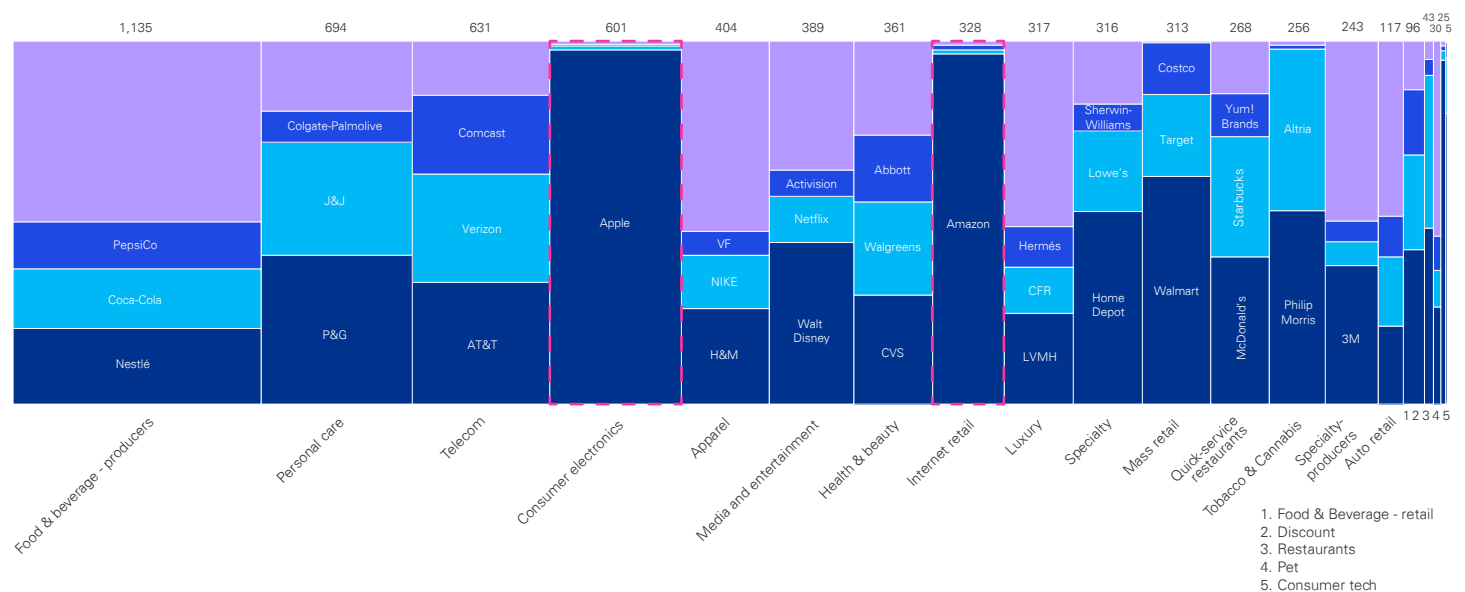
Market cap by sub-sector
2008, $2.6t, n=311

1. Food & Beverage - retail
2. Auto retail
3. Internet retail
4. Restaurants
5. Discount
6. Consumer tech
7. Pet

2015 By 2015, continued growth in both the consumer electronics and internet retail sub-sectors began altering the overall landscape of C&R.
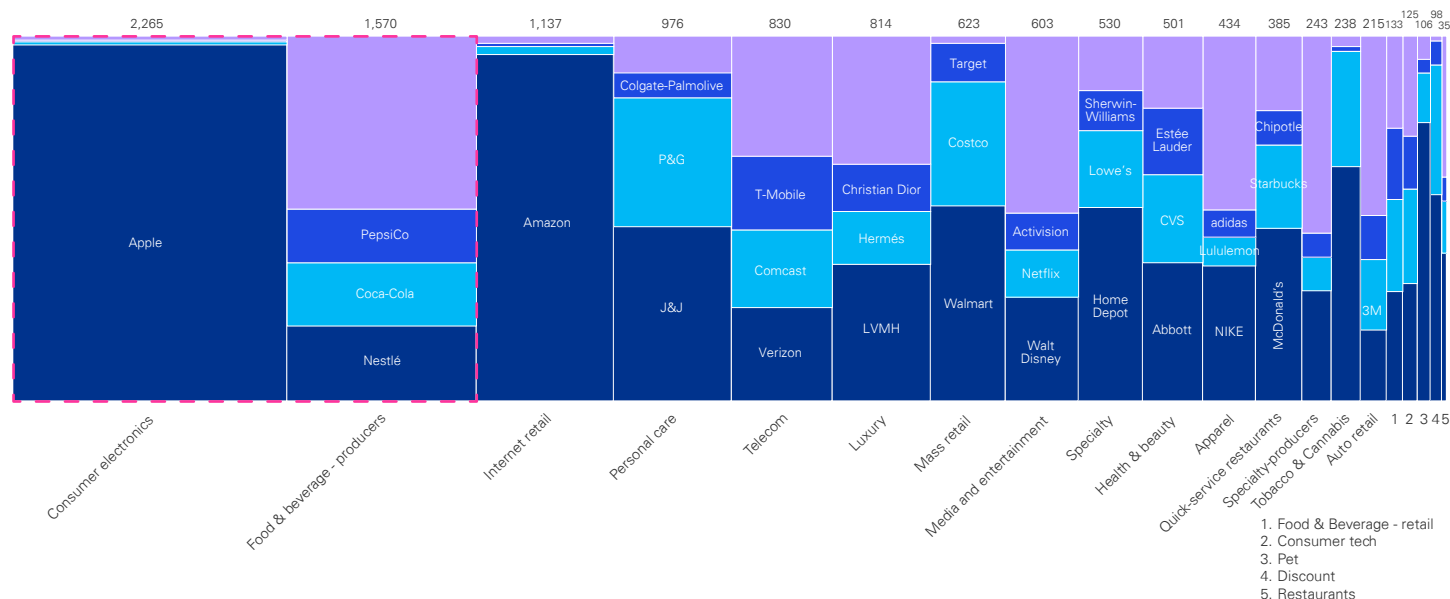
Market cap by sub-sector
2015, $6.6t, n=392

1. Food & Beverage - retail
2. Discount
3. Restaurants
4. Pet
5. Consumer tech

In Q2 2022, consumer electronics and food and beverages made up nearly a third of the total C&R market cap.

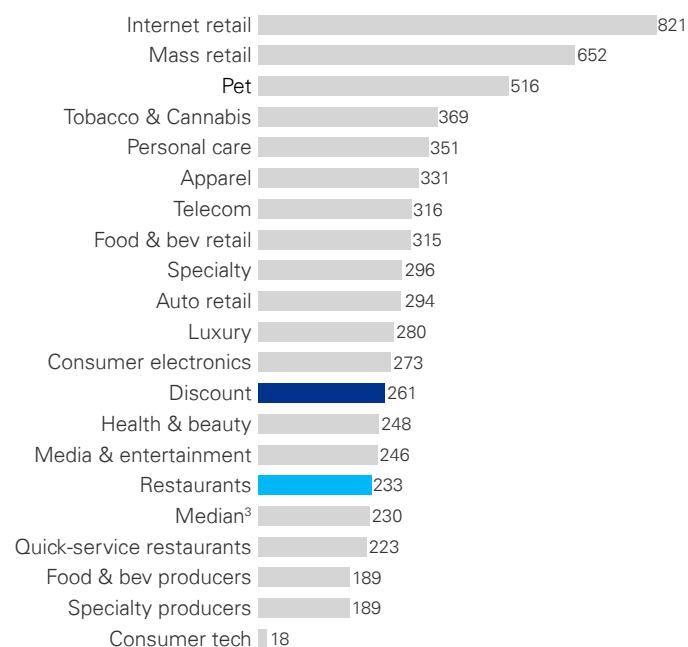## Market cap by sub-sector
2022, $11.9t, n=589

2,265	Consumer electronics
1,570	Food & beverage - producers
1,137	Internet retail
976	Personal care
830	Telecom
814	Luxury
623	Mass retail
603	Media and entertainment
530	Specialty
501	Health & beauty
434	Apparel
385	Quick-service restaurants
243	Specialty-producers
238	Tobacco & Cannabis
215	Auto retail
133	
125	
106	
98	
35	

1. Food & Beverage - retail
2. Consumer tech
3. Pet
4. Discount
5. Restaurants

Source: S&P Capital IQ, accessed 10/21/22

Observation 3:

Across all four business cycles, a different sub-sector had led in median TSR; some sub-sectors are more volatile while others demonstrate consistent performance.
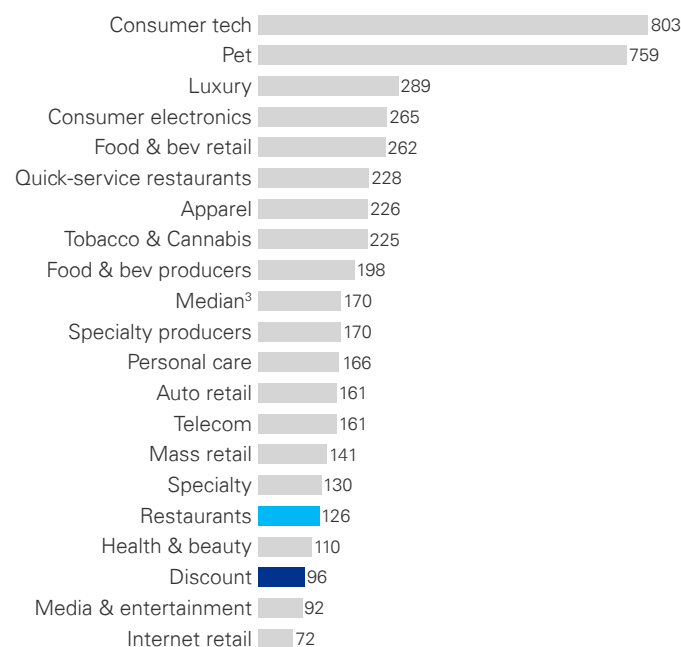
Median company TSR by sub-sector[1]
$,1995 to 2001, n=255[2]

Sub-sector	Value
Internet retail	821
Mass retail	652
Pet	516
Tobacco & Cannabis	369
Personal care	351
Apparel	331
Telecom	316
Food & bev retail	315
Specialty	296
Auto retail	294
Luxury	280
Consumer electronics	273
Discount	261
Health & beauty	248
Media & entertainment	246
Restaurants	233
Median[3]	230
Quick-service restaurants	223
Food & bev producers	189
Specialty producers	189
Consumer tech	18

Median company TSR by sub-sector[1]
$,2002 to 2007, n=306[2]

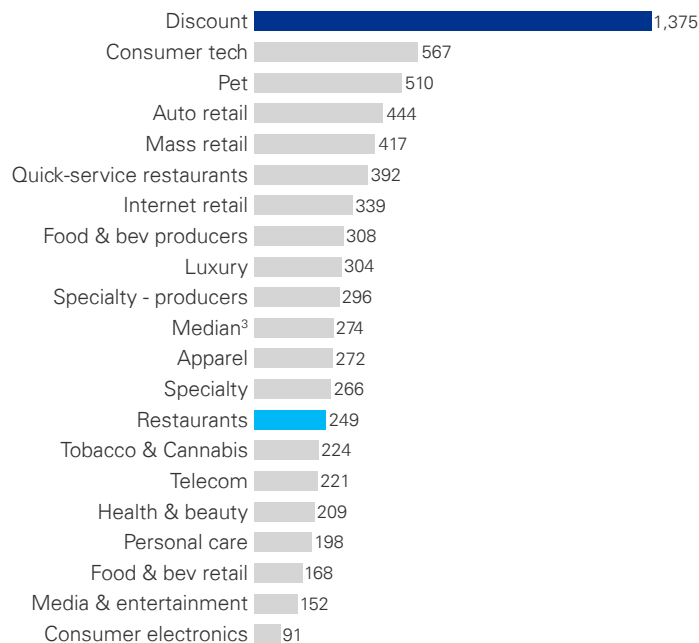| Sub-sector	Value
Consumer tech	803
Pet	759
Luxury	289
Consumer electronics	265
Food & bev retail	262
Quick-service restaurants	228
Apparel	226
Tobacco & Cannabis	225
Food & bev producers	198
Median[3]	170
Specialty producers	170
Personal care	166
Auto retail	161
Telecom	161
Mass retail	141
Specialty	130
Restaurants	126
Health & beauty	110
Discount	96
Media & entertainment	92
Internet retail	72

Note: (1) Determined as-if $100 invested in each sub-sector's median TSR performer company at the beginning of each respective business cycle; (2) Company counts as of last year identified in business cycle; (3) Median $TSR of entire sample (n=255, 306, 467, 589) for respective business cycle

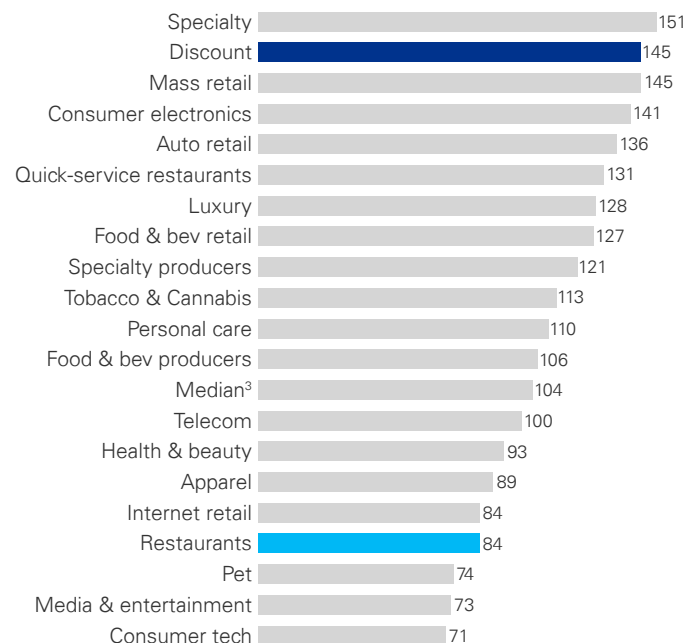Source: S&P Capital IQ, accessed 10/21/22

Median company TSR by sub-sector[1]
$, 2008 to 2019 , n=467[2]

Sub-sector	Value
Discount	1,375
Consumer tech	567
Pet	510
Auto retail	444
Mass retail	417
Quick-service restaurants	392
Internet retail	339
Food & bev producers	308
Luxury	304
Specialty - producers	296
Median[3]	274
Apparel	272
Specialty	266
Restaurants	249
Tobacco & Cannabis	224
Telecom	221
Health & beauty	209
Personal care	198
Food & bev retail	168
Media & entertainment	152
Consumer electronics	91

Median company TSR by sub-sector[1]
$, 2020 to Q2 2022 , n=589[2]

Sub-sector	Value
Specialty	151
Discount	145
Mass retail	145
Consumer electronics	141
Auto retail	136
Quick-service restaurants	131
Luxury	128
Food & bev retail	127
Specialty producers	121
Tobacco & Cannabis	113
Personal care	110
Food & bev producers	106
Median[3]	104
Telecom	100
Health & beauty	93
Apparel	89
Internet retail	84
Restaurants	84
Pet	74
Media & entertainment	73
Consumer tech	71

Note: (1) Determined as-if $100 invested in each sub-sector's median TSR performer company at the beginning of each respective business cycle; (2) Company counts as of last year identified in business cycle; (3) Median $TSR of entire sample (n=255, 306, 467, 589) for respective business cycle

Source: S&P Capital IQ, accessed 10/21/22

Observation 4:

TSR dispersion exists, both between sub-sectors and within sub-sectors

Distribution of median TSR CAGR(1) (%) by sub-sector 1995 to Q2 2022

Sub-sectors	N count[2]	Median TSR CAGR	Mean TSR CAGR	25th percentile	75th percentile	25% to 75% range	
Discount	5	11.7%	10.4%	10.4%	13.0%	2.6%	①
Mass Retail	6	10.8%	-2.2%	8.7%	12.9%	4.2%	
Tobacco and Cannabis	10	9.8%	1.9%	5.2%	10.5%	5.3%	
Telecom	13	8.6%	5.2%	0.2%	12.2%	12.0%	
Auto Retail	28	8.5%	-4.3%	-9.8%	15.2%	25.0%	
Luxury	23	8.1%	0.3%	0.0%	13.5%	13.5%	
Food and Beverage - Producers	77	6.9%	0.4%	-7.1%	11.1%	18.2%	
Restaurants	26	5.7%	3.8%	-3.1%	10.4%	13.5%	
Quick-Service Restaurants	18	5.0%	-7.4%	-8.4%	10.6%	18.9%	
Consumer Electronics	19	4.8%	-10.0%	-29.0%	13.2%	42.1%	②
Specialty	33	4.6%	-3.4%	-7.6%	11.9%	19.5%	
Specialty - Producers	63	4.6%	-3.4%	-5.2%	8.3%	13.5%	
Apparel	71	4.2%	-2.4%	-5.9%	8.9%	14.8%	
Food and Beverage - Retail	14	4.0%	0.8%	-6.9%	9.6%	16.5%	
Personal Care	21	-1.0%	-14.4%	-37.2%	7.0%	44.2%	
Media and Entertainment	64	-1.5%	-7.9%	-15.0%	3.7%	18.7%	
Health and Beauty	37	-8.6%	-15.6%	-34.4%	6.3%	40.7%	
Internet Retail	28	-17.1%	-26.2%	-47.1%	-0.9%	46.2%	
Consumer Tech	21	-21.5%	-24.8%	-39.9%	-12.9%	27.0%	③
Pet	12	-23.7%	-18.6%	-41.3%	6.8%	48.1%	②
Sector	589	3.3%	-6.0%	-14.4%	9.6%	24.1%	

Commentary:

① The middle 50 percent of TSR CAGRs are most clustered for the Discount and Mass Retail sub-sectors, indicating a decreased likelihood of return dispersion

② Conversely, the middle 50 percent of TSR CAGRs are least clustered for the personal care and pet sub-sectors, indicating an increased likelihood of return dispersion

③ Consumer Technology's 25th and 75th percentile TSR CAGR are -39.9 percent and -12.9 percent, respectively, indicating that the majority of sub-sector returns are negative
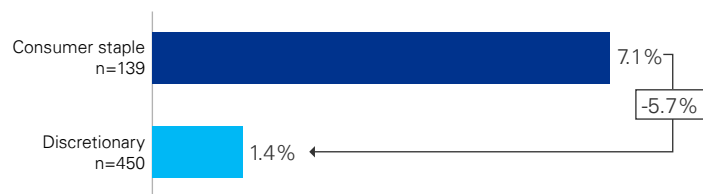
Note: (1) Determined by indexing $100 in period 1 of TSR being calculated and taking the CAGR from initial to Q2 2022; (2) N count as-of Q2 2022

Source: S&P Capital IQ, accessed 10/21/22

Observation 5:

Certain qualitative factors may play a role in TSR dispersion among consumer and retail companies

Median company TSR CAGR[1],
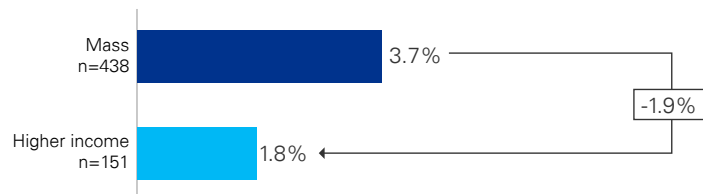**Consumer staple vs. Discretionary** Q2 2022, %

Consumer staple n=139 — 7.1%

Discretionary n=450 — 1.4%

-5.7%

Median company TSR CAGR[1],
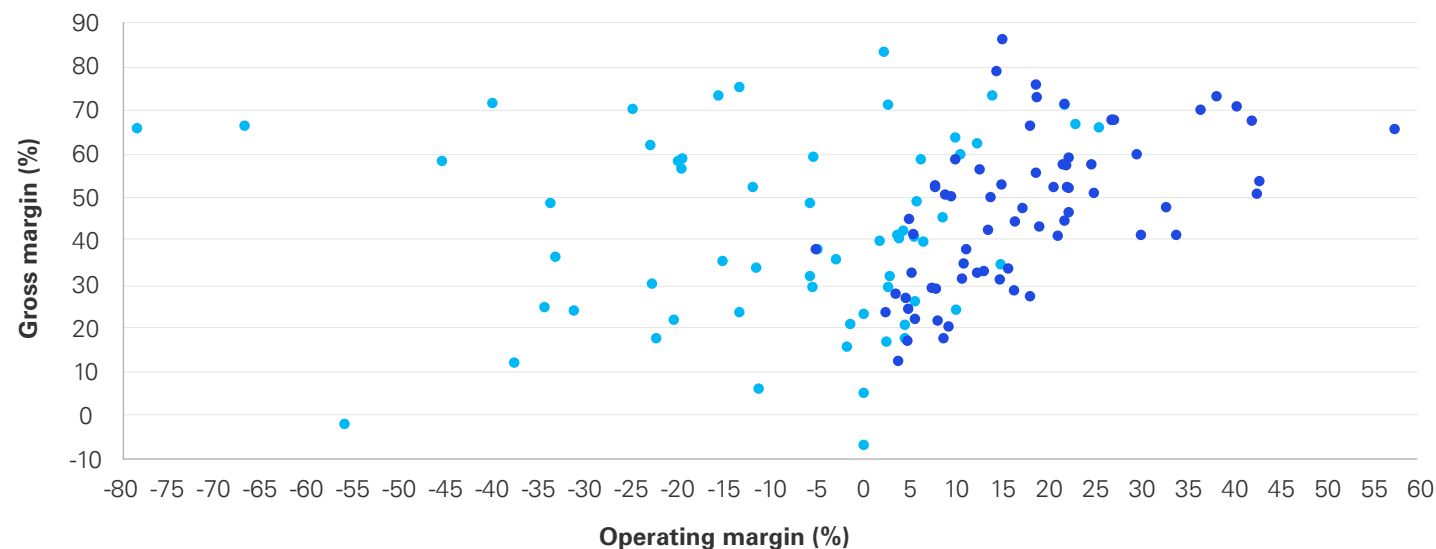**Single brand vs. Multi-brand** Q2 2022, %

Multi-brand n=294 — 4.9%

Single brand n=295 — 0.2%

-4.7%

Median company TSR CAGR[1]

Mass v. higher-income target consumer Q2 2022, %

Mass n=438 — 3.7%

Higher income n=151 — 1.8%

-1.9%

Median company TSR CAGR[1]

Vertically integrated vs. pure-play Q2 2022, %

Pure-play n=479 — 3.5%

Vertical n=110 — 0.1%

-3.4%

Note: (1) Determined by indexing $100 in period 1 of TSR being calculated and taking the CAGR from initial to Q2 2022

Source: S&P Capital IQ, accessed 10/21/22

Observation 6:

For each sub-industry, the overwhelming majority of winners had a stronger operating margin profile, but gross margin profile results are mixed.

Gross margin vs. operating margin of winners and laggards %, FY 2021, n=131

	Median gross margin	Median operating margin
● Winner	48.1%	16.2%
● Laggard	40.7%	-2.4%

Source: S&P Capital IQ, accessed 10/21/22

Conclusion

Business leaders in the consumer and retail sectors should consider the implications of these six observations on their respective companies' asset portfolios, asking themselves a fundamental question:

> *Does our current asset portfolio position us to generate sustainable, above-average total shareholder return during the next business cycle, and what actions—acquisitions and/or divestitures—should be considered for optimal and sustainable TSR this year?*

How KPMG can help you

KPMG helps its clients by taking a truly integrated approach to delivering value, leveraging its depth in the consumer and retail industry, data-supported and tools-led insights, and full M&A capabilities across the deal life cycle. KPMG knows how to prepare your team and execute across the deal life cycle so you can achieve your deal thesis and create sustainable value through M&A. Our C&R specialist teams bring both transactional and operational experience, delivering rapid results and value creation.

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