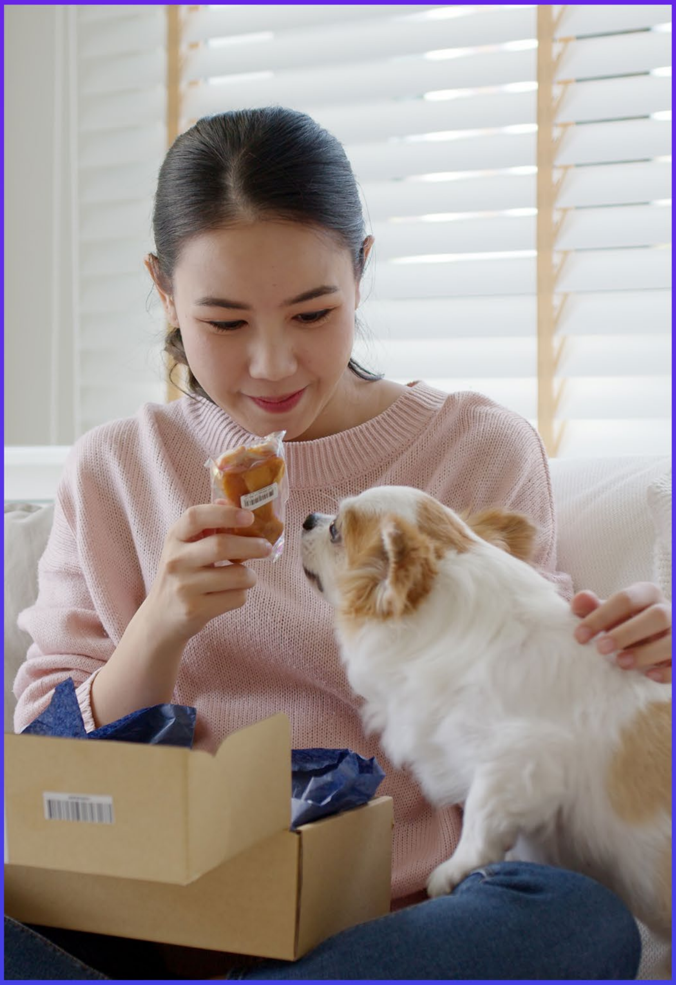
Moving slowly

M&A trends in consumer and retail



Q1'23

kpmg.com

Introduction

Uncertainties dominate

Uncertainty about the depth and duration of a potential recession significantly slowed mergers and acquisitions (M&A) activity in the consumer and retail segment in Q1'23, with deal value declining by 85 percent compared with the previous quarter. Interest rate hikes by the Federal Reserve, market volatility, and a decline in consumer confidence are leading to value gaps impeding deals. In addition, recent stresses in the banking system have raised the prospect that banks will tighten credit to consumers, whose use of credit cards to fund purchases has grown markedly since the end of 2021. A decline in retail sales, persistent inflation, and rising interest rates combined to produce a fall in consumer sentiment in March, which also weighed on the M&A market. All that said, early April saw new data on jobs and inflation could indicate a possible trend toward a more stable interest rate environment into the latter part of this year, which could support a return to deal-making among those that have been waiting for that climate.

Frank Petraglia
Partner
Deal Advisory & Strategy
C&R Leader

Q1'23 highlights

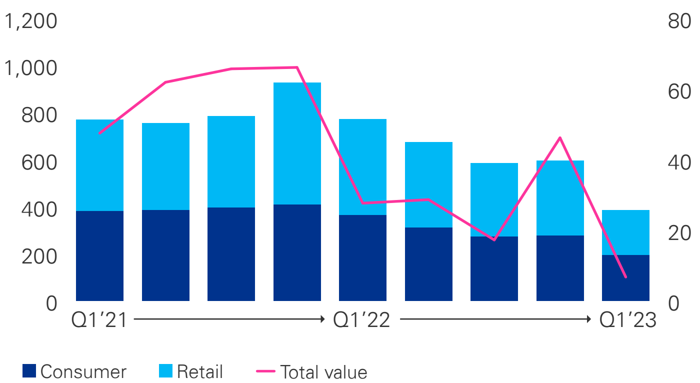
385 Deals

▼35% Decrease QoQ

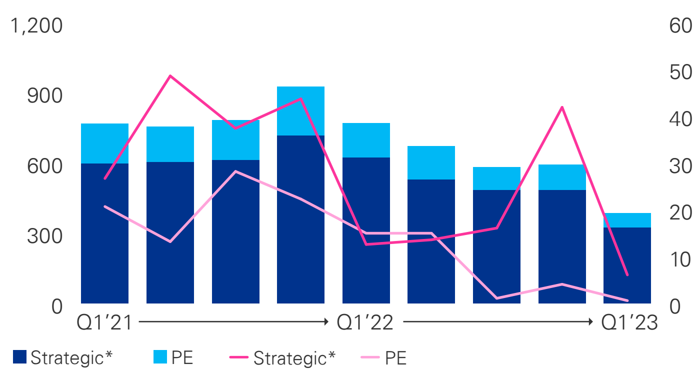
$6.7 Billion deal value

▼85% Decrease QoQ

Consumer and retail activity by sector



Consumer and retail deal activity by type

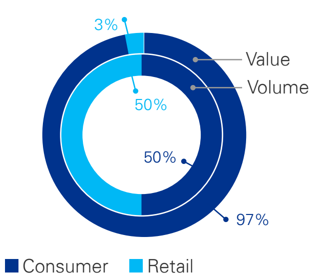


**Includes SPAC deal activity*

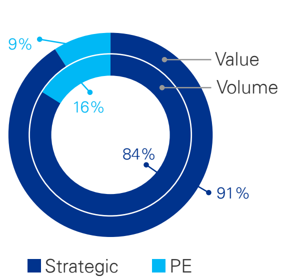
Q1'23 deal mix

Outer ring represents value. Inner ring represents volume.

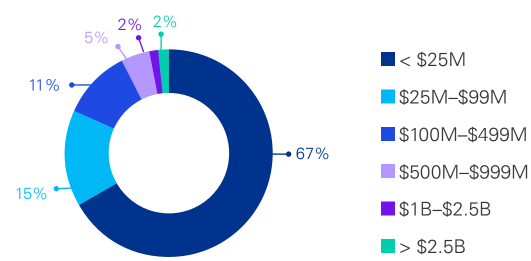
Sector mix



PE/Strategic mix



Value size mix



© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Top strategic deals

Acquirer	Target	Value (billions)
Altria Group	NJOY Holdings	$2.8
Post Holdings	Pet food brands of J.M. Smucker	$1.2
Malteries Soufflet	United Malt Group	$1.0
Fresh Express, Inc.	Fresh Vegetables division of Dole	$0.3
Gold Flora LLC	TPCO Holding Corp	$0.1

Top PE deals

Acquirer	Target	Value (billions)
Advent International	Sweet ingredients portfolio of Kerry Group	$0.5
Jefferies Finance LLC	FORMA Brands, LLC	$0.03

© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

At a glance

Consumer

Bright spots emerge

As the M&A market cooled for consumer goods, tobacco and pet food emerged as the sector's only bright spots. Altria, the maker of Marlboro cigarettes, scored the sector's largest deal with the $2.8 billion announced acquisition of NJOY Holdings, an electronic cigarette firm with an FDA-approved pod e-vapor system.

Pet food continues to attract new entrants as the number of pets boom, and consumers look for more nutritious foods for their dogs and cats (see Deep dive). Post Holdings, the maker of Shredded Wheat and Raisin Bran breakfast cereals, announced the $1.2 billion acquisition of Kibbles and Bits and other pet foods from J.M. Smucker.

Other major deals centered on continued growth of the ingredients markets. Private equity firm Advent International announced the $500 million acquisition of the sweet ingredients portfolio of Kerry Group. Chiquita Brands' Fresh Express acquired the Fresh Vegetables division of grower Dole for $293 million in cash.

Q1'23 highlights

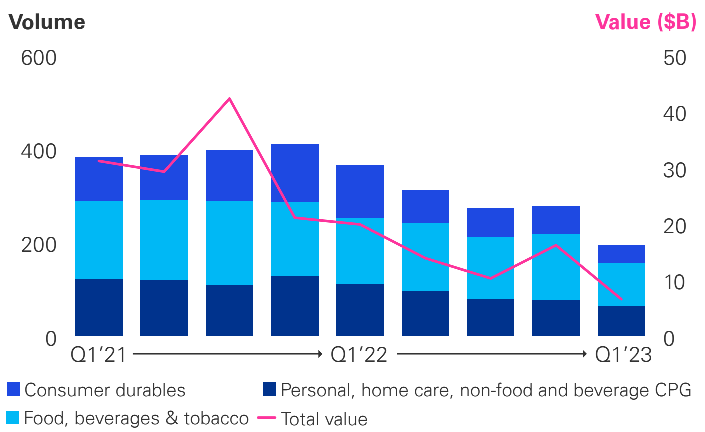
194 Deals

▼ **30%** Decrease QoQ

$6.5 Billion deal value

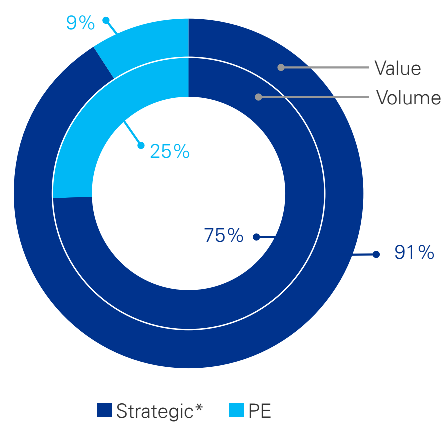
▼ **60%** Decrease QoQ

Consumer deal activity by subsector



Q1'23 PE/Strategic mix

Outer ring represents value. Inner ring represents volume.



Includes SPAC deal activity

Top consumer deals

Acquirer	Target	Rationale	Value (billions)
Altria Group Inc.	NJOY Holdings	Accelerate consumer transition to a smoke-free future	$2.8
Post Holdings	Pet food brands of J.M Smucker	Enter into and capitalize on the rising pet care industry	$1.2
Malteries Soufflet	United Malt Group	Capture global growth across regions and verticals	$1.0
Advent International	Sweet ingredients portfolio of Kerry Group	Build and enhance the food and nutrition portfolio	$0.5
Fresh Express, Inc.	Fresh Vegetables division of Dole	Invest in innovation and food safety	$0.3

Data was sourced from Capital IQ, Refinitiv, Pitchbook, and KPMG analysis. The values and volumes data cited are for U.S. deals announced between 1/1/2023 and 3/10/2023. Deal values are only presented based on publicly available deal data and are not exhaustive. Previously published statistics may be restated to incorporate new data and/or changes in deal volumes.

© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

At a glance

Retail

Sharp contraction

While the giant supermarket merger between Kroger and Albertsons in Q4'22, which still faces regulatory hurdles, inflated retail's M&A activity, the decline in the value of retail deals in Q1'23 was a remarkable 99 percent. Retail has been the first to suffer as the Federal Reserve pursues its inflation-fighting program by raising interest rates.

Among the 191 deals, SKYX Platforms, a maker of smart plugs, announced the acquisition of Belami, an e-commerce lighting company. Tellingly, the largest deal in the quarter was worth just $32 million.

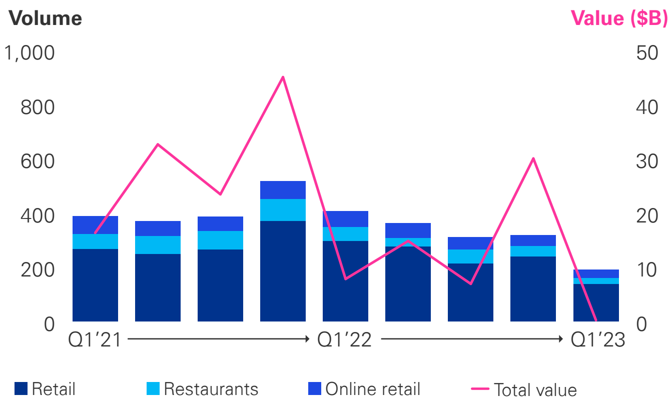
In other deals, AnPac Bio-Medical Science Co., a cancer-screening company based in China, announced that its subsidiary, Foodbase, is acquiring SLV Windfall, a group of companies that own real estate in South Carolina.

Q1'23 highlights

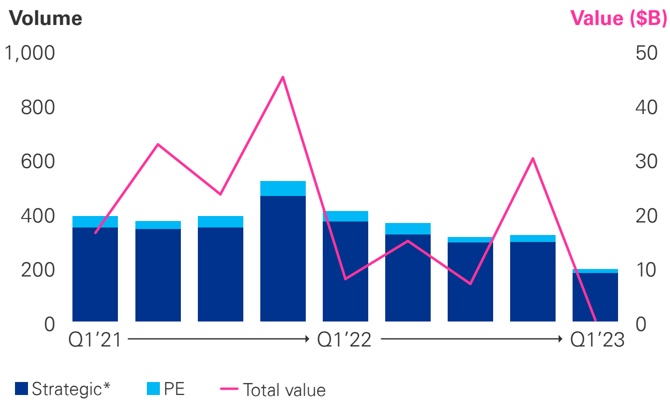
191 Deals ▼ **40%** Decrease QoQ

$0.2 Billion deal value ▼ **99%** Decrease QoQ

Retail deal activity by subsector



Q1'23 retail deal activity by type



Top retail deals

Acquirer	Target	Rationale	Value (billions)
SKYX Platforms	Belami, Inc.	Grow distribution network and achieve long-term growth	$0.03
Foodbase Group, Inc.	SLV Windfall	Grow warehouse and distribution centers	$0.03

Data was sourced from Capital IQ, Refinitiv, Pitchbook, and KPMG analysis. The values and volumes data cited are for U.S. deals announced between 1/1/2023 and 3/10/2023. Deal values are only presented based on publicly available deal data and are not exhaustive. Previously published statistics may be restated to incorporate new data and/or changes in deal volumes.

© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Deep dive

Pet industry convergence

In the current sluggish market, the pet industry continues to shine as one of the brightest areas of M&A activity in the consumer and retail (C&R) sector. In addition to organic growth and acquisitions in traditional areas such as pet food, companies are using M&A to expand into new segments, a convergence trend that affects everything from veterinary care to pet health insurance. Traditional retailers are expanding their services. Service providers are exploring insurance offerings. And consumables producers are adding wearables and other adjacent technologies to their portfolios.

With the number of pets per household recently getting a boost, and pets often treated as a human member of the family, the pet sector has exhibited growth in every segment over the past decade. Total spend across the pet sector grew from $53.3 billion in 2012 to $136.8 billion in 2022 and is expected to reach $143.6 billion this year.[1]

While much of the pet industry growth has been driven by macro factors such as household pet penetration and increases in consumer discretionary spending, changes in consumer behavior at a sub-sector level have led to growth across all corners of the pet ecosystem—including retail, health and nutrition, products and services, and technologies and other adjacencies. With growth occurring everywhere in the sector, traditional players are asking themselves whether they can find value by expanding across other segments of the broader ecosystem.

Much of the M&A activity has been focused on market share or geographic expansion, product diversification, or cost synergy opportunities. For example, traditional pet food companies have acquired fresh, health-conscious brands and veterinary aggregators have continued to gobble up more share. Customer brand loyalty, ownership of customer data and insights, and pull-through sales opportunities between products and services are all allowing companies to unlock top-line synergies and significantly accelerate value creation opportunities.

Pet services companies have begun exploring other segments, either by diversifying their own portfolio or through strategic partnerships. Firms need to analyze the strengths and weaknesses of their current position in the market to determine what natural adjacencies they are leaving on the table that might serve to benefit their customers and ask whether the opportunities are better achieved through M&A or building their own.

Andrew Lindsay
Principal
Deal Advisory & Strategy

Eric Lewandowski
Managing Director
Deal Advisory & Strategy

[1] "Pet Industry Market Size, Trends & Ownership Statistics," americanpetproducts.org, March 2023

© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Outlook

Mixed signals

KPMG believes that the M&A market for consumer and retail companies will likely tread water until Q4'23 or the start of FY2024. The rationale behind this is a stubbornly hot economy that is prompting the Federal Reserve to continue raising interest rates although the likelihood of a credit crunch that constricts economic activity will act as a substitute for future rates increases beyond May. KPMG Economics expects the upper range of the federal funds rate target to reach 5.25 percent by May 2023, and they do not expect any rate cuts until 2024.

For C&R companies, the economy presents a confusing array of mixed signals: consumer spending[2] and retail sales[3] actually rose in January after declining in the second half of 2022, and the economy created more than a million new jobs in Q1 2023. The University of Michigan gauge of Consumer Sentiment, which was improving earlier this year, lost ground in March. The index is still almost 24 points below its historical average.[4] Adding to the mixed signals for retailers was guidance from Macy's and Best Buy that they expect sales to fall in 2023 after declines in 2022 because of higher inflation and other macro factors.[5]

KPMG C&R analysts said the atmosphere for deals had become "sub-optimal" and they expect M&A activity in the sector is likely to be in a longer lull than was expected only a few months earlier. Nonetheless, a large number of corporates are undertaking strategic reviews, driven by challenged valuations and pressure from activist investors. As a result, strategic firms that can fund acquisitions with their balance sheets may continue to be active in M&A, especially with synergistic deals that take costs out and boost operating margins to counter pressure on top-line growth. Still, the targets acquired will be under scrutiny to quickly deliver accretive results, KPMG analysts noted.

Private equity investors, on the other hand, will be limited in their ability to transact as long as uncertainty around interest rates persists because of the difficulty in obtaining financing for leveraged deals when the future of rates and the near-term performance of target companies remain unclear.

The KPMG C&R team expects that businesses in the sector that carry out M&A transactions will be looking for deals that can provide differentiated products and services that are either premium or personalized, which are better able to withstand inflationary pricing pressures.

Key considerations as we look ahead

In pursuing M&A in an economic downturn, C&R dealmakers should consider the following:

1 Align M&A with corporate strategy

Opportunistic acquisitions, made possible by lower competition for assets and depressed valuations, should be vetted with enhanced scrutiny relative to the company's corporate goals and ambitions. There needs to be a clear connection between the corporate strategy of the buyer (i.e., buy vs. build) and the M&A strategy.

2 Exit planning

Initiate and aggressively implement EBITDA improvement activities 12–18 months before planned disposition. With leverage challenges and multiples contracting, it will be critical to squeeze every dollar of EBITDA out of assets in the four quarters before exit. Consider preparing non-core assets for a quick sale to activist investors taking advantage of market downturn.

3 Balance sheet delivering

With the banking sector stressed, it is important to reduce reliance on leverage and plan to mitigate the impact of potential covenant issues and maturity rollovers.

[2] "Consumer spending," bea.gov, March 2, 2023

[3] "U.S. Retail Sales Surge," tradingeconomics.com, February 2023

[4] "University of Michigan Survey of Consumers," sca.isr.umich.edu, March 2023

[5] Suzanne Kapner and Dean Seal, "Macy's, Best Buy Sales Decline, Reflecting Shopper Pullback," wsj.com, March 2, 2023

© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

How we can help you

KPMG helps its clients overcome deal obstacles by taking a truly integrated approach to delivering value and leveraging its depth in the C&R industry, using data-supported and tools-led insights, and providing full M&A capabilities across the deal lifecycle.

With a C&R specialization, our teams bring both transactional and operational experience, delivering rapid results and value creation.

Authors

Frank Petraglia
Partner,
Deal Advisory & Strategy
212-954-1074
fpetraglia@kpmg.com

Kevin Martin
Partner,
Deal Advisory & Strategy
571-635-4078
kevinmartin@kpmg.com

Derek McGuire
Partner,
Deal Advisory & Strategy
212-954-3492
drmcguire@kpmg.com

Sam Abouzeid
Principal,
Deal Advisory & Strategy
404-222-3620
habouzeid@kpmg.com

Andrew Lindsay
Principal,
Deal Advisory & Strategy
404-593-5917
ajlindsay@kpmg.com

Dan Shaughnessy
Principal,
Deal Advisory & Strategy
404-513-3684
dshaughnessy@kpmg.com

Julia Wilson
Principal
Deal Advisory & Strategy
404-222-3511
juliawilson@kpmg.com

Art Djavairian
Managing Director,
Deal Advisory & Strategy
480-459-3500
adjavairian@kpmg.com

Eric Lewandowski
Managing Director,
Deal Advisory & Strategy
313-230-3000
elewandowski@kpmg.com

Amit Patel
Managing Director,
Deal Advisory & Strategy
212-997-0500
amitpatel6@kpmg.com

Joseph Schena
Managing Director,
Deal Advisory & Strategy
212-872-5692
jschena@kpmg.com

With special thanks to:
Ankita Baweja, Nishtha Joshi, Geoff Lewis, Ralph Park, Harshita Talreja, John Thomas, Heather Vo, Charles Wallace, and Kathy Wheeler

© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia

© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.
DASD-2023-12288