



Marking time

M&A trends in
consumer and retail

Q3'23

kpmg.com

Introduction
p.2

By the numbers
p.4

Deep dive
p.6

Outlook
p.7



Introduction

Still on the sidelines

Strategic consumer and retail (C&R) corporate buyers as well as private equity (PE) continued to avail themselves of opportunities that the lull in mergers and acquisition (M&A) activity has provided. This is occurring against the backdrop of an uncertain economy in 3Q'23. Consumers are battling inflationary pricing pressure and high interest rates, resulting in trading down and/or postponing purchases, while drawing down savings to fund purchases and experiences and preparing to payback student debt. In addition, the pressure of significantly higher rates place on businesses has kept many would be buyers and sellers on the sidelines. And finally, the current situation in the Middle East could significantly change the outlook for the foreseeable future.

Overall, dealmaking has been held back by concerns over higher interest rates and declining consumer confidence. The risk reward profile has shifted with the significantly higher cost of capital than we have seen in nearly 20 years, and business buyers and sellers have yet to fully acknowledge that valuations have fallen.

The largest deal in the quarter was the PE firm Roark Capital Group's purchase of Subway for \$9.55 billion to leverage Roark's franchising and restaurant business expertise. This ended a year-long auction process, and Subway joins Roark's extensive portfolio of food, franchisee, and restaurant companies. About \$1 billion shy of the Subway transaction was the announced strategic acquisition of Capri Holdings Limited by Tapestry, for \$8.5 billion, creating a US luxury powerhouse and providing the

combined firm cost savings while expanding reach and new synergistic growth opportunities.

Q3'23 closed on a take-private transaction, a strategy we discussed in our 2Q'23 C&R M&A report as an attractive alternative to deteriorating public market valuations and the accompanying reporting demands that being public entails. On September 28, Chico's FAS entered a definitive agreement to be acquired by PE-firm Sycamore Partners (a specialist in retail and consumer investments) for \$1 billion, a 65 percent premium to the September 27 close.

With interest rates continuing to rise and banks closed to lending to all but the best corporates, it is hard to see light at the end of the tunnel. KPMG C&R analysts believe most firms remain on the sidelines waiting for better valuations and see a bottom coming in 2024.



Frank Petraglia

Partner

Deal Advisory & Strategy

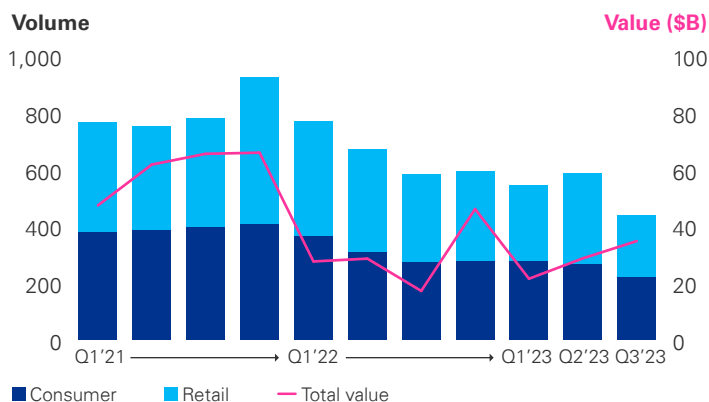
Consumer & Retail Leader

Q3'23 highlights

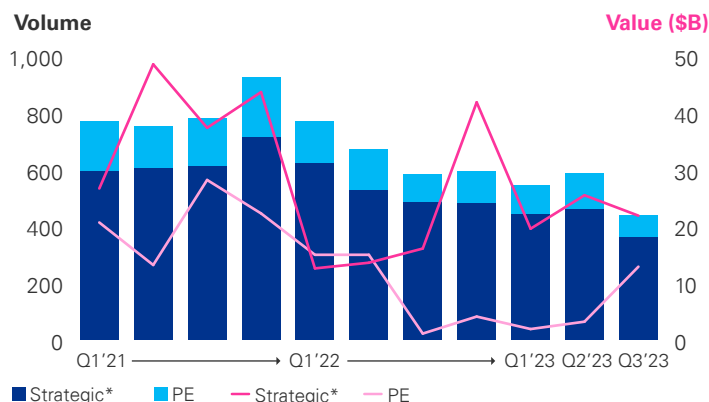
439 **▼ 25%**
deals decrease
QoQ

\$34.8 **▲ 21%**
billion deal value increase
QoQ

C&R deal activity by sector



C&R deal activity by type

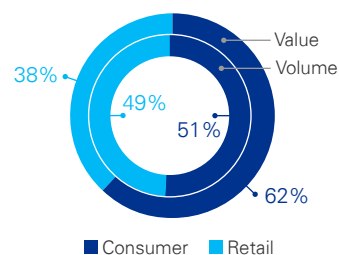


*Includes SPAC deal activity

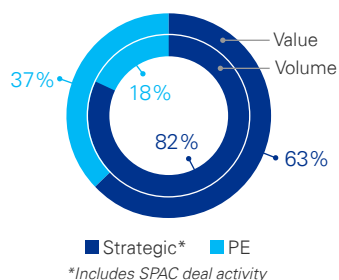
Q3'23 deal mix

Outer ring represents value, inner ring represents volume

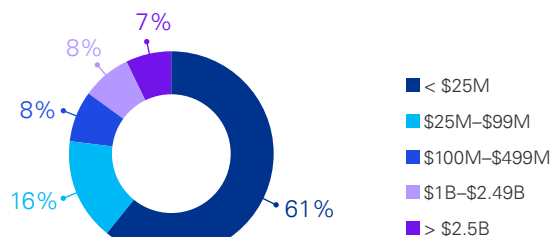
Sector mix



PE/Strategic mix



Value size mix



Top strategic deals

Acquirer	Target	Value (billions)
Tapestry, Inc.	Capri Holdings Limited	\$8.5
The J. M. Smucker Company	Hostess Brands, Inc.	\$5.6
Campbell Soup Company	Sovos Brands, Inc.	\$2.7
C&S Wholesale Grocers, Inc.	Select stores, distribution centers, offices & private label brands of Kroger and Albertsons	\$1.9
Sanofi	Qunol (a brand of Quten Research Institute LLC)	\$1.4

Top PE deals

Acquirer	Target	Value (billions)
Roark Capital Group	Subway	\$9.5
Advent International	Zimmermann Wear	\$1.1
Bain Capital (Adam Nebesar)	Fogo de Chão	\$1.1
Sycamore Partners Management (Stefan Kaluzny)	Chico's FAS	\$1.0

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and excludes asset purchases/minority purchases. Q2 2023 covers all U.S. deals announced from April 1, 2023 to June 10, 2023 and select mega (>US\$1 billion) deals from June 11, 2023 to June 30, 2023. Deal values are presented based on publicly available deal data and might not be exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.



By the numbers



Consumer

Fewer transactions offset by higher valuations

The value of M&A deals in the consumer sector picked up significantly in Q3'23, despite yet another federal funds rate hike that brought the Federal Reserve benchmark interest rate to its highest level in 22 years, at 5.5 percent. In total, the value of consumer M&A increased from \$1.7 billion in Q2'23 to a hefty \$21.7 billion in Q3, a gain of 1145 percent, with three deals comprising 80 percent of the value. In volume terms, consumer deals declined 17.2 percent to 222.

The most significant M&A gain was in personal, home care, non-food and beverage CPG M&A, which gained a whopping 3050.5 percent to \$13 billion, reflecting the Tapestry/Capri deal. Volume rose 5.1 percent to 82 deals during Q3.

Food, beverages and tobacco deal value increased as well, up 827.1 percent to \$8.5 billion in Q3 reflecting two large deals

accounting for a 29.5 percent decline in deal volume, to 91, from 129.

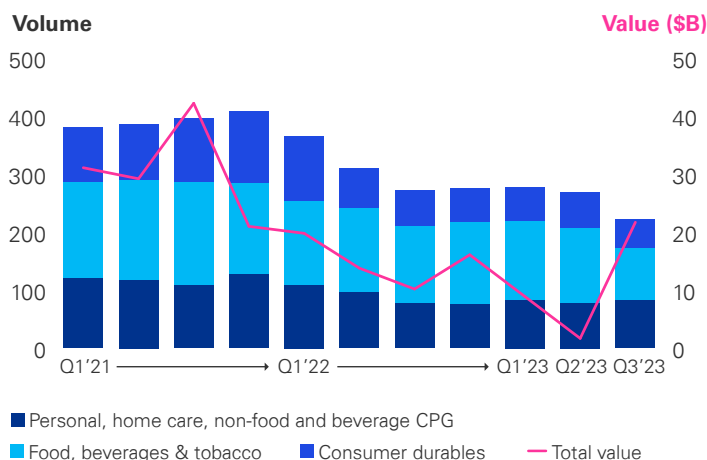
In the consumer durables subsector, transaction value declined 57.1 percent to a de minimus \$200 million from \$400 million, while the number of deals declined a more modest 19.7 percent, from 61 in Q2 to 49 in Q3.

Q3'23 highlights

222 **-17.2**
deals decrease
QoQ

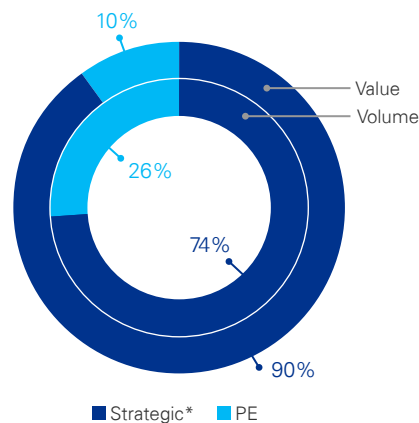
\$21.7 **1145%**
billion deal value increase
QoQ

Consumer deal activity by subsector



Q3'23 consumer PE/strategic mix

Outer ring represents value, inner ring represents volume.



Top consumer deals

Acquirer	Target	Rationale	Value (billions)
Tapestry, Inc	Capri Holdings Limited	Expand market reach	\$8.5
The J. M. Smucker Company	Hostess Brands, Inc	Leverage distribution, expand portfolio	\$5.6
Campbell Soup Company	Sovos Brands	Expand presence into high-growth segments	\$2.7
Qunoi	Sanofi	Strengthen consumer healthcare portfolio	\$1.4

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and excludes asset purchases/minority purchases. Q2 2023 covers all U.S. deals announced from April 1, 2023 to June 10, 2023 and select mega (>US\$1 billion) deals from June 11, 2023 to June 30, 2023. Deal values are presented based on publicly available deal data and might not be exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.

By the numbers



Retail

Fast, fresh, and healthy

M&A activity in retail trailed the overall C&R sector, with deals down 32 percent quarter over quarter. Deal value declined even more precipitously, at a 52 percent pace despite having the largest transaction of the sector, the Roark Capital-Subway deal, which accounted for 73 percent of retail M&A deal value in Q3'23, or \$9.55 billion.

By subsector, restaurants accounted for the bulk of retail M&A in Q3, at \$10.9 billion versus \$700 million in Q2, primarily reflecting the Roark Capital-Subway transaction. Bricks and mortar retail represented the remaining \$2.1 billion in M&A retail value during Q3, down 92 percent from Q2's \$26.3 billion. No online retail M&A activity occurred during the most recent quarter.

Strategic versus PE

PE deal activity was the driver for retail M&A during the most recent quarter in terms of value, due to the Roark Capital-Subway

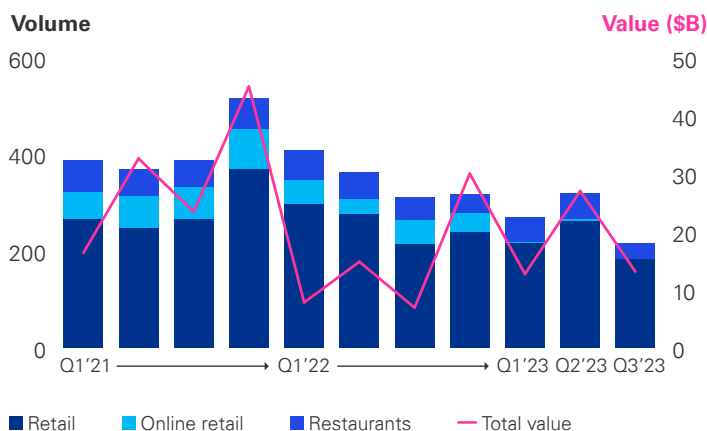
deal. The number of transactions declined to 20 from 27 in Q2, while the value of retail PE deals increased in Q3 to \$10.7 billion, up 305 percent from \$2.6 billion in Q2. Strategic M&A retail activity decreased about 30 percent from Q2'23 to Q3, with 197 deals worth \$2.4 billion, down from 282 deals worth \$24.4 billion in Q2.

Q3'23 highlights

217 ▼ **32%**
deals decrease QoQ

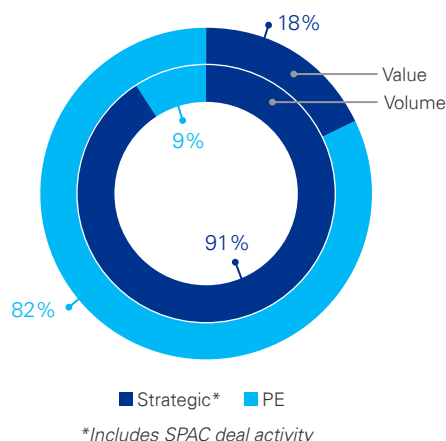
\$13.1 ▼ **52%**
billion deal value decrease QoQ

Retail deal activity by subsector



Q3'23 retail PE/strategic mix

Outer ring represents value, inner ring represents volume.



Top retail deals

Acquirer	Target	Rationale	Value (billions)
Roark Capital Group	Subway	Leverage franchising expertise, expansion abroad	\$9.5
C&S Wholesale Grocers, Inc.	Selected Stores, Distribution Centers, Offices & Private Label brands of Kroger and Albertsons	Accelerate international expansion, expand products	\$1.1
Fogo de Chão	Bain Capital	Leverage restaurant business experience, growth	\$1.1
Sycamore Partners Management	Chico's FAS	Access additional resources, become private	\$1.0

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and excludes asset purchases/minority purchases. Q2 2023 covers all U.S. deals announced from April 1, 2023 to June 10, 2023 and select mega (>US\$1 billion) deals from June 11, 2023 to June 30, 2023. Deal values are presented based on publicly available deal data and might not be exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.



Aspirational luxury fashion sector proves to be an M&A bright spot

M&A activity in C&R all but came to a screeching halt in Q3 of 2023 in terms of volume flow, with combined strategic and PE transactions down 25 percent on both a quarter over quarter and year over year basis to the lowest number of quarterly transactions since the first quarter of 2020. The lone bright spot was from Tapestry, the holding company of Coach, Kate Spade, and Stuart Weitzman, which surprised investors with its August 10 announcement agreeing to acquire Capri Holdings (CPRI, owner of Michael Kors, Jimmy Choo and Versace). Citing its intention to establish a global house of luxury and fashion brands,¹ along with \$200 million of potential cost synergies, Tapestry offered a 65 percent premium to the prior day's close on CPRI common shares for a total sum of approximately \$8.5 billion, making this transaction the largest strategic of the quarter.

The \$250 billion US personal luxury goods sector achieved a 6.8 percent CAGR for the 2009–2022 period, based on Euromonitor data, with only one down pandemic-related year, 2020. The pre-pandemic CAGR of 6.9 percent for the 2009–2019 period was followed by the COVID-19-driven 18.6 percent drop in 2020 in US luxury sales. The lockdown preventing social experiences and travel along with the CARES Act, which provided supplemental income for many Americans during the 2020–2022 period, sparked new interest for many in higher-priced, experience-rich luxury purchases, when US luxury sales achieved a 22.3 percent CAGR. Most luxury brands benefited as US shoppers diverted travel budgets to domestic luxury spending.

As US consumers resumed travel and inflationary pressures hit goods and services in 2022, US luxury sales remained strong, but attenuated at the end of 2022 and through 2023 according to multiple luxury houses. Despite luxury's "stickiness" and consumers' reluctance to trade down from luxury brands once they have experienced and purchased luxury, aspirational luxury consumers are now merely purchasing these pricier items less frequently or not at all. Luxury is a resilient category, and increasingly luxury products (handbags, fashion jewelry, footwear) are considered a "store of value" as many luxury resale sites and blogs reveal, thus providing shoppers another rationale for purchase.

The Tapestry deal was a surprise, spurring the question of potentially other strategic opportunities in luxury as we enter a more challenging spending environment due in part to higher

interest rates and projected weakening macro-economic fundamentals (see our outlook section). In the luxury sector, there are always attractive brands for purchase, however, KPMG believes it is more likely that we will see smaller brands finding new owners/investors. An example of this is Advent International purchasing a majority stake in Australian contemporary luxury brand Zimmermann from Italian PE firm Stage Capital and the founding Zimmermann family (which still holds a minority interest).² On a more global basis, the Rolex acquisition of international multi-brand watch retailer Bucherer (both firms are Swiss-based with approximately a third of Bucherer's 100 stores in the US) provides Rolex direct access to its consumer base and speaks to downstream integration in a direct-to-consumer model and greater control at point of sale.



Sunder Ramakrishnan

*Principal
Advisory*



¹ Tapestry Investor Presentation, August 10, 2023

² "Advent buys Australian fashion brand Zimmermann in \$1B deal," reuters.com, August 08, 2023

Outlook

Higher for longer

The prolonged hawkish Fed stance is muting US economic growth and slowing consumer consumption, though KPMG economics continue to see the US averting a recession and navigating a soft landing in 2023–2024. Our economists put the possibility of a recession at about 17 percent, a more positive outlook than the 25 percent consensus stance. We forecast a slowdown in Q4 and the first half of 2024, with consumption slowing dramatically in early 2024 and recovering in the back half of the year. However, it is uncertain how the current situation in the Middle East will impact the economy, but the changes could be significant.

KPMG believes the current 5.5 percent Fed funds rate is the peak of this cycle, and we do not anticipate another rate hike this year (though some economists hold out for a final 25 basis point increase at the November meeting). However, we do expect interest rates to remain at current high levels for a while given the Fed's vigilance of Core PCE inflation less than 3 percent and target 2 percent versus today's 4.2 percent core service inflation rate and 4.7 percent "supercore" inflation (excluding food, energy and housing prices).

There are several headwinds for consumer and retail M&A over the next 3 to 12 months, including the end of student loan forbearance, labor strikes across multiple industrial sectors, tight credit conditions, high interest rates, and a drawdown of excess savings. On the plus side, tailwinds include real wage growth, the option to repay student loans, and an active labor market with unemployment below 4 percent for the longest time span since 1969.

Consumer sentiment and behavior signals mixed messages, further amplifying confusion for consumer and retail companies. Shoppers are forfeiting big (expensive and interest-rate sensitive) purchases in lieu of spending on food away from home and small wellness-related luxuries, yet travel is near pre-pandemic levels despite accommodation PCE inflation of 6.2 percent. September retail sales excluding auto and gas rose 4.0 percent year over year,³ driven by spending at restaurants, bars, health and personal care stores, and nonstore (online) retailers, while department stores, furniture and home furnishing, electronics and appliance stores, and sporting goods and hobby stores suffered year-over-year declines. The Michigan Consumer Sentiment preliminary October reading declined 7.5 percent to 63.0 from September's levels, while sentiment regarding current economic conditions was off 6.6 percent month over month at 66.7.⁴

The KPMG C&R team expects the current M&A lull to prevail until the economic trajectory becomes more certain and/or interest rates begin to decrease.

Key considerations as we look ahead

In pursuing M&A in the current economic environment, C&R dealmakers should think about the following:

1 Complementary synergistic deals

Add-on businesses that provide cost savings, leverage, and future growth are attractive options in a no-growth/slow growth environment. Alternatively, shrink to grow by spinning off/selling off non-core business segments.

2 Follow the consumer

Expect a new set of consumer values driving purchasing behavior in a post-pandemic, high interest rate environment with inflationary pricing pressures. Off-price retailers, private label foodstuff, and \$1000+ Taylor Swift tickets aptly reflect today's shoppers.

3 Good strong business fundamentals

High quality companies bear the weight of higher interest rates and lower valuations best. Do not be deceived by extremely low valuations as seller capitulate. Remember, always buy value.



Arthur Djavairian
Managing Director
Strategy



Mike Musso
Managing Director
Strategy

³ US Department of Commerce US Census Bureau Advance Monthly Retail Sales for Retail and Food Services, September 2023

⁴ Surveys of Consumers, University of Michigan, www.sca.isr.umich.edu



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, data-supported and tools-led insights, and 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 C&R Leader*
212-954-1074
fpetraglia@kpmg.com

**Derek McGuire**

*Partner,
Financial Due Diligence*
212-954-3492
drmcguire@kpmg.com

**Joseph Schena**

*Partner,
Financial Due Diligence*
203-913-1783
jschena@kpmg.com

**Sunder Ramakrishnan**

*Principal,
Strategy*
617-905-6397
hsramakrishnan@kpmg.com

**Rob Kornblatt**

*Managing Director,
Financial Due Diligence*
267-256-2731
rkornblatt@kpmg.com

**Arthur Djavairian**

*Managing Director,
Strategy*
480-459-3500
adjavairian@kpmg.com

**Mike Musso**

*Managing Director,
Strategy*
404-222-3000
michaelmusso@kpmg.com

With special thanks to:

Marie Driscoll, Katherine Wheeler, John Thomas, Rosser Standifer, Garvita Garg

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



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.

© 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. DASD-2023-13779