



Open for business

**M&A trends in
consumer and retail**

Q2'24

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Deal-making shows signs of heating up

The second quarter of 2024 (Q2'24) likely marked the nadir in the merger and acquisition (M&A) market for consumer and retail (C&R). We enter the back half of 2024 poised for deal growth, as July's higher unemployment (4.3 percent) and lower consumer sentiment, which dropped to 67.8 in August from 101 prior to the pandemic, favor a reduction in interest rates beginning in September.

The corporates and private equity (PE) firms that have been sitting on the sidelines for the past 12 to 24 months need to reassess the current environment to avoid being crowded out of the market. In fact, only three days into the second half of 2024, an expected lull over the July 4 holiday was instead marked by the announcement of two notable C&R deals, with a third large deal announced in August. These attest to pent-up strategic demand and accumulated dry powder, potentially signaling the beginning of the next bull market in M&A in C&R.

Despite a decrease in deal volume quarter-over-quarter (QoQ) to 526 (including a large drop in deal value because of one

large transaction), KPMG LLP (KPMG) is encouraged by the thawing out among PE firms in Q2'24 and sees deal-making continuing to gain traction as the year progresses, culminating in an upbeat finish at year-end and boding well for the 2025 M&A environment.



Frank Petraglia

Partner

Deal Advisory & Strategy

Consumer & Retail Leader

Q2'24 highlights

526

deals

1.5%

decrease
QoQ

\$11.2

billion
deal value

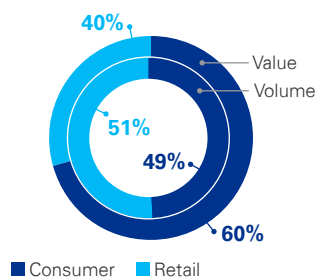
60.8%

decrease
QoQ

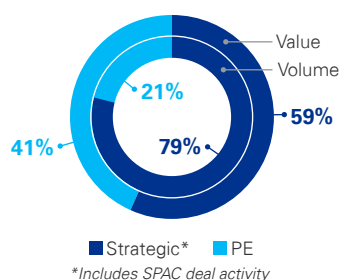
Q2'24 deal mix

Outer ring represents value. Inner ring represents volume.

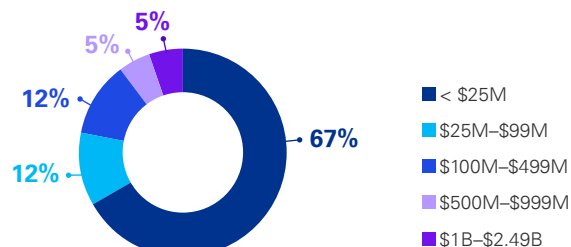
Sector mix



PE/Strategic mix



Value size mix



Overall top strategic deals Q2'24

Acquirer	Target	Value (billions)
Authentic Brands Group LLC	Global Champion Business of Hanesbrands Inc.	\$1.2
JD Sports Fashion Plc	Hibbett, Inc.	\$1.1
Ansell Limited	Personal Protective Equipment business of Kimberly-Clark Corporation	\$0.6
MasterBrand Cabinets, LLC	Supreme Cabinetry Brands, Inc.	\$0.5
IQVentures Holdings, LLC	The Aaron's Company, Inc.	\$0.5

** stake deals

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis. The values and volumes data cited are for US deals announced between April 1, 2024 and June 30, 2024. 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 any changes.

Overall top PE deals Q2'24

Acquirer	Target	Value (billions)
Blackstone	Tropical Smoothie Cafe	\$2.0
L Catterton**	Kiko Milano	\$1.5
The Carlyle Group**	KFC Holdings Japan	\$0.9





Consumer and retail

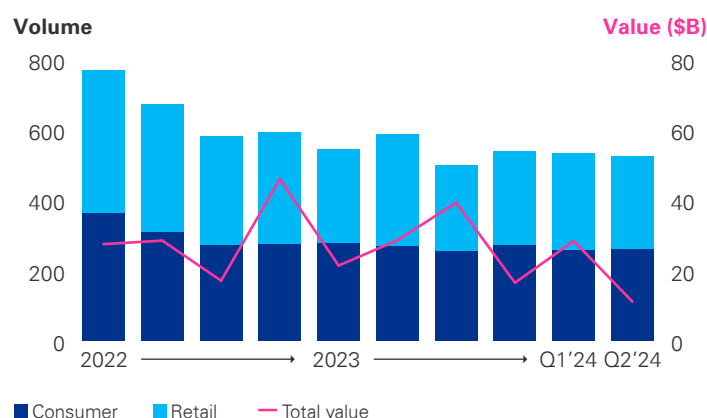
PE firms drive volume and value in Q2'24

C&R M&A continued to be sluggish in Q2'24 with 526 deals announced, a 1.5 percent drop in volume from Q1'24's 534 deals and a 10.4 percent decline year-over-year (YoY). C&R sector deal value of \$11.2 billion declined 60.8 percent from \$28.5 billion and 61.1 percent YoY (from \$28.7 billion), reflecting smaller deal sizes. There were no "mega deals" above \$5 billion during the period, and as a result, the sector had the lowest quarterly deal value total since Q1'20.

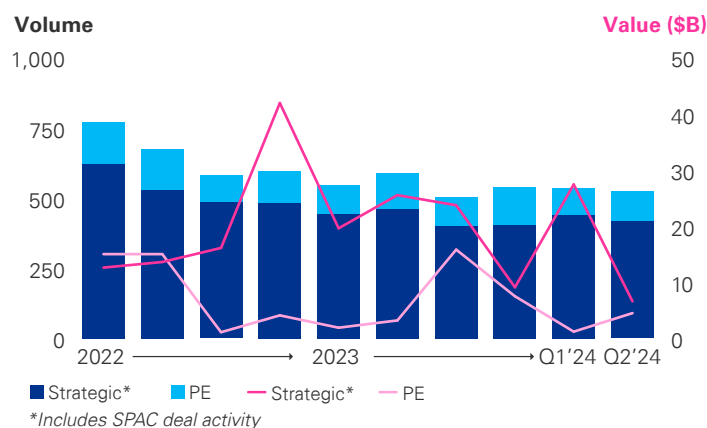
Retail deals marginally outnumbered consumer deals, with 266 retail transactions and 260 consumer deals.

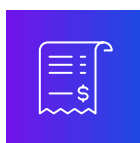
The number of private equity deals rose in Q2'24 to 110 from 95 in Q1'24. Despite the quarterly increase, this represents a decline of 12.7 percent YoY from 126 transactions the year before. However, PE deal value rose 292.0 percent, from \$1.2 billion in Q1'24 to \$4.5 billion in Q2'24. On a YoY basis, PE deal value increased 41.0 percent. The 416 strategic deals valued at \$6.6 billion were 5.2 percent below the number of strategic deals in Q1'24 and 9.8 percent below Q2'23 volume; the value of strategic deals fell a more precipitous 75.8 percent QoQ, down 74.0 percent YoY from \$25.5 billion.

C&R deal activity by subsector



C&R deal activity by type





Consumer

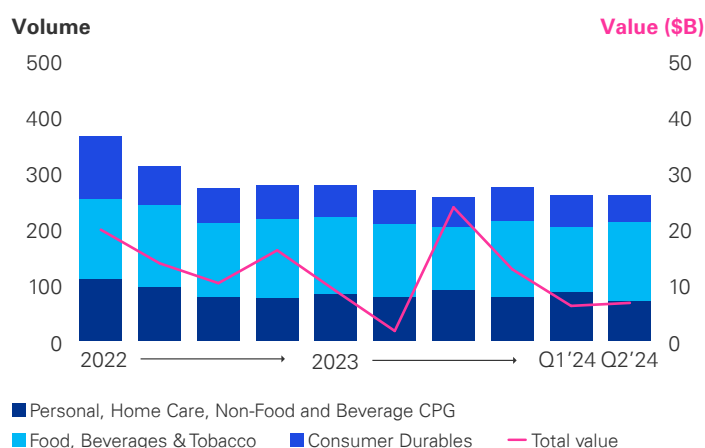
Consumer M&A trends

While the number of announced consumer deals in Q2'24 was nearly flat at 260 versus 259 in Q1'24, deal values rose 8.6 percent to \$6.7 billion. Food, beverage, and tobacco accounted for 142 deals—up 22.4 percent from the 116 deals in Q1'24; value increased 228.9 percent to \$2.1 billion from \$631 million. While personal, home care, and nonfood and beverage consumer packaged goods companies announced 16 fewer deals in Q2'24, totaling 70 deals, the value increased 145.2 percent to \$4.0 billion from \$1.6 billion. Consumer durable deal announcements declined 15.8 percent to 48 total deals from 57 deals in Q1'24; deal value dropped 83.1 percent to \$666 million from \$3.9 billion.

Q2'24 highlights

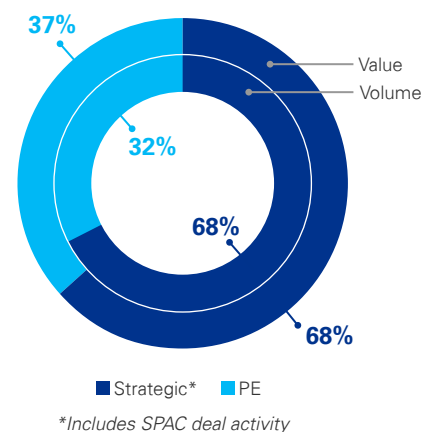


Consumer deal activity by subsector



Q2'24 consumer PE/strategic mix

Outer ring represents value. Inner ring represents volume.



Top consumer deals Q2'24

Acquirer	Target	Rationale	Value (billions)
L Catterton**	Kiko Milano	To help accelerate the company's global expansion plans	\$1.5
Authentic Brands Group LLC	Global Champion Business of Hanesbrands Inc.	To expand its brand portfolio and improve presence in the sports and entertainment licensing industry	\$1.2
The Carlyle Group**	KFC Holdings Japan	To optimize their investment portfolio, leveraging opportunities in the upper middle market of Japan	\$0.9
Ansell Limited	Personal Protective Equipment business of Kimberly-Clark Corporation	To enhance growth strategy, expand customer reach, improve market positioning, and achieve cost synergies by leveraging combined supply chain and organizational efficiency	\$0.6
MasterBrand Cabinets, LLC	Supreme Cabinetry Brands, Inc.	To expand its offerings and dealer network, and achieve operational synergies for better customer service	\$0.5

** stake deals

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis. The values and volumes data cited are for US deals announced between April 1, 2024 and June 30, 2024. 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 any changes.



Retail

Retail M&A trends

Retail M&A was muted in Q2'24 following heightened deal value in Q1'24. Total retail M&A transactions declined 3.3 percent to 266 in Q2'24 from 275 in Q1'24. The online-only retail space announced three transactions, up from two, while restaurants and retail announced transactions decreased 6.3 percent and 2.9 percent, respectively, on a QoQ basis. Restaurant deal value rose 95.0% to \$2.1 billion from \$1.1 billion offset by an 88.9 percent decline in retail value, to \$2.4 billion from \$21.3 billion.

Q2'24 highlights

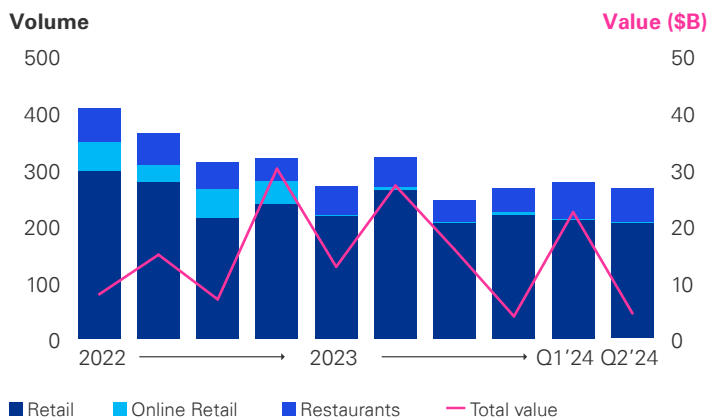
266
deals

3.3%
decrease
QoQ

\$4.4
billion
deal value

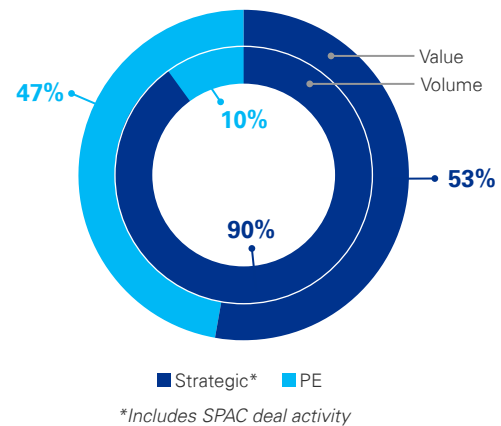
80.1%
decrease
QoQ

Retail deal activity by subsector



Q2'24 retail PE/strategic mix

Outer ring represents value. Inner ring represents volume.



Top retail deals Q2'24

Acquirer	Target	Rationale	Value (billions)
Blackstone	Tropical Smoothie Cafe	To expand its portfolio of franchise brands and capitalize on Tropical Smoothie Cafe's growth trajectory	\$2.0
JD Sports Fashion Plc	Hibbett, Inc.	To create a global presence in athletic fashion retail, leveraging combined strengths for expanded distribution and enhanced customer service	\$1.1
IQVentures Holdings, LLC	The Aaron's Company, Inc.	To enhance The Aaron's Company's omnichannel strategy and operational efficiencies, while delivering increased shareholder value	\$0.5
Group 1 Automotive, Inc.	Inchcape U.K. Dealerships	To establish their global presence and expand into new markets in the central and northwest regions of England and Wales	\$0.4

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PE M&A deals

Getting back to work

PE dipped its toes back into the M&A market in Q2'24. On both a volume and value basis, PE gained ground, announcing 15 more deals, totaling 110, for a total value of \$4.5 billion. We could be at the turning point for M&A as market participants get in front of the next Fed move to lower rates, which KPMG Economics suggests will occur as soon as September 2024.

PE firms announced 26 deals in retail, up from 17 in Q1'24, while PE deals in consumer companies rose to 84 in Q2'24 from 78 in Q1'24. Consumer PE deal value rose 113.5 percent, or \$1.3 billion to \$2.5 billion. Retail PE announced deals totaled 26 in Q2'24, up 52.9 percent from 17 in Q1'24; retail PE value of \$2.1 billion compares with de minimis value in Q1'24.

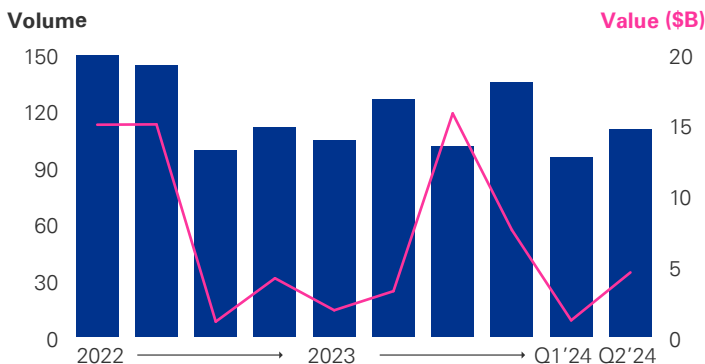
PE firms are employing innovative alternatives amid market illiquidity and moving from the sidelines to trade or invest in assets in various ways. Two of the top three PE deals in the C&R space in Q2'24 are stake deals of partial ownership and

may signal the PE investor taking a larger stake dependent upon performance and expected lower interest rates. Continuation funds have also surfaced as an alternative exit to an otherwise illiquid position, evolving from a strategy to lengthen the holding period for struggling portfolio companies into a vehicle allowing general partners to retain attractive investments until market conditions change, potentially enhancing returns while providing liquidity today.

Q2'24 highlights

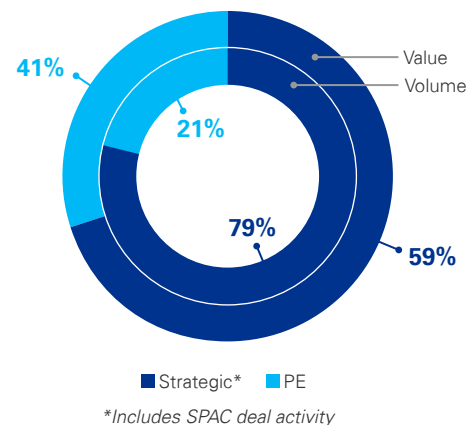


PE deal activity



Q1'24 PE/strategic mix

Outer ring represents value. Inner ring represents volume.



Top PE deals Q2'24

Acquirer	Target	Rationale	Value (billions)
Blackstone	Tropical Smoothie Cafe	To expand its portfolio of franchise brands and capitalize on Tropical Smoothie Cafe's growth trajectory	\$2.0
L Catterton**	Kiko Milano	To help accelerate the company's global expansion plans	\$1.5
The Carlyle Group**	KFC Holdings Japan	To optimize their investment portfolio, leveraging opportunities in the upper middle market of Japan	\$0.9

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Retail real estate makes a comeback

The decade leading up to 2020 was fraught with doomsayers prognosticating physical retail's demise and the end of the mall. But in 2024, retail real estate trends are quite the reverse, with high occupancy rates, renewed brick-and-mortar foot traffic, and a rebalancing of industry power dynamics favoring developers.

That's not to say the shopping center of 2024 looks as it did in 2004. Over the past decade, we've seen retailers adjust to meet changing consumer preferences, such as curbside pickup, reconfiguring stores as fulfillment centers, and shrinking store footprints to maximize space and efficiency. What's true today is the retail real estate ecosystem favors class-A high-end destinations with new brands, upscale labels, and experiences that drive traffic. Class B and C enclosed malls and shopping centers are struggling to adapt; however, daily-needs retail, featuring grocery, remains strong.

Vibrant shopping centers offer experiences

Retailers who have figured out how to maximize both brick-and-mortar locations and an online presence are faring strongest. Consumers enjoy the online convenience of buying staples (whether subscribing or reordering), discovering products, and price-comparing goods. However, we've learned that the same shoppers still need a reason to visit stores. Leading shopping centers, whether open-air or enclosed, reflect the needs, demands, and aspirations of their local communities and offer an experience. They adaptively reuse space to include educational facilities, apartments, offices, hotels, and museums, while also housing businesses more typically found in shopping venues, such as apparel, accessories, eateries, and kiosks.

According to Cushman Wakefield, outdoor centers are the strongest performers since 2020, owing to their proximity to residential areas and a diverse tenant mix that includes grocers and service providers.¹ In 2024, we see a bifurcation between top tier "A" locations and more mundane enclosed malls or outdoor centers. Why? The latter lack a *raison d'être* for visiting, according to Bill Taubman, president and chief operating officer

of Taubman Realty Group. Taubman recently commented that sales in his 26 upscale malls rose 30 percent during the 2023 Christmas season versus the same period in 2019. "We have so much tenant demand in the best malls," Taubman said. "And it's driven by all these direct-to-consumer brands that now realize they can't [make money] unless they have a brick-and-mortar presence."²

“ I think you're going to continue to see the shift away from department stores and into other big box uses. You saw us open SCHEELS sporting goods, for example, in a former department store space. You'll see us open Arte Museum in the former art-like theater space. We're going to continue to see different types of uses, diversified uses, taking the department store space and converting that into other uses that frankly drive more sales and traffic. That's a trend we've seen accelerating over the last five years, and that is going to continue as we go forward.”

—Thomas E. O'Hern

former chief executive officer and chief financial officer, The Macerich Company, February 7, 2024 conference call³

¹ "Beyond the storefront: Evolving dynamics in retail space occupancy," Cushman & Wakefield, May 26, 2024

² "Mall executive Bill Taubman talks about pandemic-shaped shopper trends, tenant demand," US News & World Report, January 16, 2024

³ Capital IQ, September 12, 2023 [paywall]

Pent-up consumer demand for social engagement, in-store discovery, and experiential retail made stores a destination, allowing consumers to rediscover the shopping center, where department stores are under heightened pressure to differentiate or close. In fact, from 1992 through 2023, department store sales dropped from 9.8 percent of total US retail sales to 1.8 percent.⁴ The continued contraction of the department store sector has real estate investors actively redesigning dark anchors into alternative uses that address local market needs.

Property developers operate with long time horizons. In response to where he sees the greatest opportunities for growth, Scott Kingsmore, chief financial officer of The Macerich Company, said,

“It’s reinvestment back into our portfolio. [I] think the opportunity over the next 10 years to continue to focus on bringing mixed use is significant. I see us over the course of the next decade adding several thousand apartment units, for instance, across our portfolio.”⁴ The shopping center of the future may well be where we dine, learn, live, work, are entertained, and yes, shop.



Julia Wilson

*Principal, Advisory
Performance
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⁴ “Department store sales in the United States from 1992 to 2023,” Statista, June 20, 2024



Higher for longer

Taming inflation and delivering a soft landing remain the Federal Reserve's top priorities heading into the second half of 2024. Retailers and fast food restaurants are discounting, aiding retail sales. Product price increases have stabilized and appear likely to decline,⁵ and service price inflation remains sticky, but is slowing. The Bureau of Labor Statistic's announcement that the unemployment rate hit a two and a half year high at 4.3 percent in July,⁶ further supported by the report that the economy only created 114,000 jobs in July (the second lowest month since 2020), mean the Fed may lower interest rates soon. KPMG Economics now forecasts a total cut of 100 basis points (bps) in 2024, with a 50 bps cut in September, a 25 bps cut in November, and a 25 bps cut in December. If that occurs, then KPMG believes M&A activity will increase, given eager buyers and sellers on the sidelines waiting for a more attractive rate environment and pricing.

M&A, strategic, and PE off to a promising second half start

M&A activity in C&R was strong entering the second half of the year, despite the July 4 holiday, with a focus on the department store retail channel. HBC's announcement to buy Neiman Marcus (including its Bergdorf Goodman banner) for \$2.65 billion will create a \$7 billion portfolio of well-located retail real estate assets in top-tier luxury shopping destinations.⁷ Another large transaction during the first week of Q3'24 occurred when KKR & Co acquired Varsity Brands from Bain Capital for \$4.75 billion.

KPMG Economics forecasts US GDP growth to change from 2.5 percent in 2023 to 2.6 percent in 2024 to 1.9 percent in 2025, driven by slowing consumption and investment as interest rates remain high. The Fed is expected to start lowering rates due to disinflation and a softening labor market. This supports a projection of 100 bps worth of cuts in 2024 (including 50 bps in September), followed by additional cuts in 2025.

Based on the KPMG May 2024 Consumer Pulse Survey, household income is relatively stable versus 2023, with nearly three-quarters experiencing price inflation and more than 60 percent expecting a recession in the next year.⁸ Still, consumers expect their spending to remain consistent for most categories while anticipating increases in groceries, automotive, travel, apparel, and restaurants. That bodes well for an M&A resurgence in these consumer categories over the next 6 to 18 months.

Key considerations as we look ahead

In pursuing M&A in 2024, consumer and retail dealmakers should consider the following:

1 Technology investments

Companies will require innovative technology to stay competitive, offer personalized experiences, improve supply chain efficiency, and execute sustainability/ESG strategies.

2 Key alliances

Strategic partnerships and acquisitions expand reach and enhance competitiveness against both incumbent industry leaders and disruptors.

3 Profitability

Cost containment and margin compression are top of mind among CPG and retailers. Consider data monetization and technology capabilities to drive efficiencies that support growth while reducing costs, including artificial intelligence.

4 Leveraging brand equity

M&A opportunities that support brand extensions provide strategic enhancement as reduced risk.



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⁵ "Walgreens joins Target, Amazon, Walmart in announcing steep summer price cuts," Gleeson, Forbes.com, May 29, 2024

⁶ "US labor market losing steam as unemployment rate climbs to 4.1%," Reuters.com, July 5, 2024

⁷ "HBC, parent of Saks Fifth Avenue, to acquire Neiman Marcus Group for \$2.65 billion and establish Saks Global, a technology-powered luxury retail company," BusinessWire.com, July 4, 2024

⁸ KPMG Consumer Pulse Survey, May 2024 [link removed]



How we can help you

KPMG helps its clients overcome deal obstacles by taking a truly integrated approach to delivering value. To do this, KPMG leverages 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, helping deliver rapid results and value creation.

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