Potential for an upswing

M&A trends in consumer and retail

Q1'24

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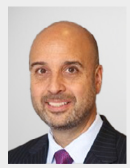
Hopeful horizons

Following a tough year of funding challenges and mismatched continued valuation gaps, the merger and acquisition (M&A) market for consumer and retail (C&R) is poised for growth in 2024, notably in the second half. The Federal Reserve's steadfast stance on interest rates during the past five meetings has calmed the markets; however, core inflation remains sticky, and the timing of a future rate cut remains uncertain. Despite the 9 percent drop in deal volume in the first quarter of 2024 (Q1'24) quarter-over-quarter (QoQ) to 488, KPMG LLP (KPMG) sees a gradual thaw of dealmaking as 2024 progresses, culminating in an upbeat finish at year-end and boding well for the 2025 M&A environment.

The C&R sector demonstrated resilience with two deals during Q1'24: The Home Depot's acquisition of SRS Distribution for $18.3 billion, followed by Berkshire Hathaway's closing on 100 percent ownership of Pilot Travel Centers for $2.6 billion. Consistent with the strategies deployed in these transactions, we see corporates looking to use M&A activity to establish or bolster market-leading positions.

Private equity (PE) firms are focused on bringing companies in their aging portfolios to market. However, valuation gaps and tighter financing have created a difficult selling environment for PE firms. As the institutional leveraged loan market becomes more supportive of M&A financing, PE firms may use their accumulated dry powder to test the waters for potential acquisitions.

Exacerbating the prevailing M&A market dynamics are an uncertain geopolitical environment and relatively weak consumer sentiment. The reading rose in March to 79.4 from February's 76.9, but remains significantly below the 85.4 average from 1952 to 2024.[1]



Frank Petraglia
Partner
Deal Advisory & Strategy
Consumer & Retail Leader

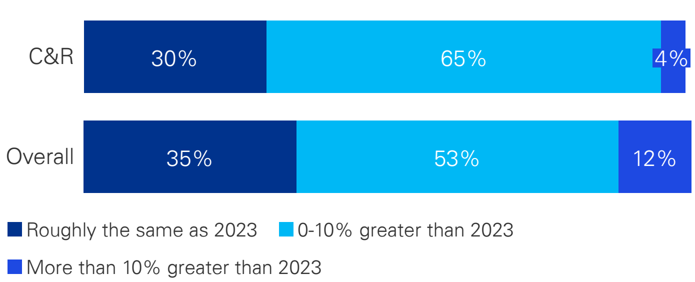
Q1'24 highlights

488 deals ▼ **9%** decrease QoQ

$27 billion deal value ▲ **63%** increase QoQ

KPMG surveyed executives in November and December 2023 about their 2024 deal expectations and approximately 65 percent are expecting 0 percent—10 percent more deals in 2024 as compared to 2023.

Beyond your own activity, what is your expectation for overall M&A activity in 2024?



[1] "United States Michigan Consumer Sentiment," Tradingeconomics.com, April 2024

Top strategic deals

Acquirer	Target	Value (billions)
The Home Depot, Inc.	SRS Distribution Inc.	$18.3
Berkshire Hathaway Inc.	Pilot Travel Centers LLC	$2.6
Walmart Inc.	VIZIO Holding Corp.	$2.3
Restaurant Brands International Inc.	Carrols Restaurant Group, Inc.	$1.0
Suave Brands Company LLC	ChapStick (brand of Haleon plc)	$0.5

Top PE deals

Acquirer	Target	Value (billions)
Bridgepoint Advisers	RoC Skincare	$0.5
Compass Diversified	The Honey Pot	$0.4
Arable Capital Partners; Pacific Trellis Fruit	Progressive Produce	$0.1
Amberstone; Clayton Christopher; Nutrabolt; The Family Fund	Bloom Nutrition	$0.1

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and excludes asset purchases. The values and volumes data cited are for US deals announced between January 1 and March 31, 2024. Deal values are based on publicly available deal data and are not exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.

Consumer and retail

Less is more in Q1'24

Despite an improvement in the overall economic conditions in the US, M&A dealmaking within the C&R sector had a sluggish beginning in Q1'24, falling short of the previous quarter's momentum. However, there has been a notable increase of 63 percent in deal value, reaching a total of $27.0 billion, reflecting The Home Depot's acquisition of SRS Distribution. Barring this deal, transaction value stood at $8.7 billion.

The total number of announced transactions within the retail sector surpassed those within the consumer sector. Retail comprised 256 deals, whereas consumer deals stood at 232.

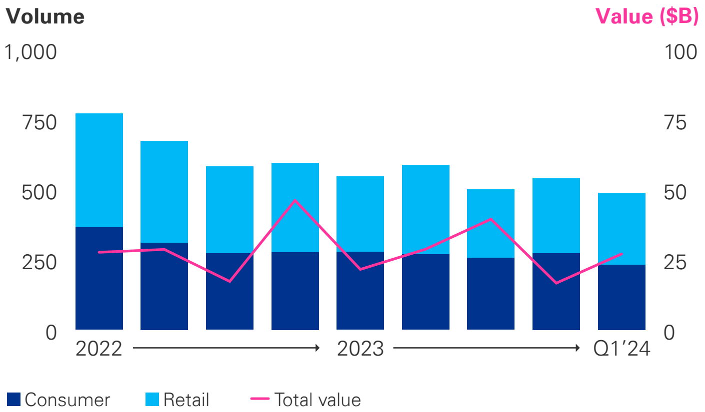
C&R strategic deals grew modestly in Q1'24, up 3.5 percent to a total of 418 deals, versus the 404 announced in Q4'23. Strategic deal value of $25.9 billion exhibited promising momentum, up 185 percent from $9.1 billion. The C&R private equity landscape slowed considerably to 70 transactions in Q1'24, down 48 percent QoQ, compared to the previous quarter's 135 deals.

Q1'24 highlights

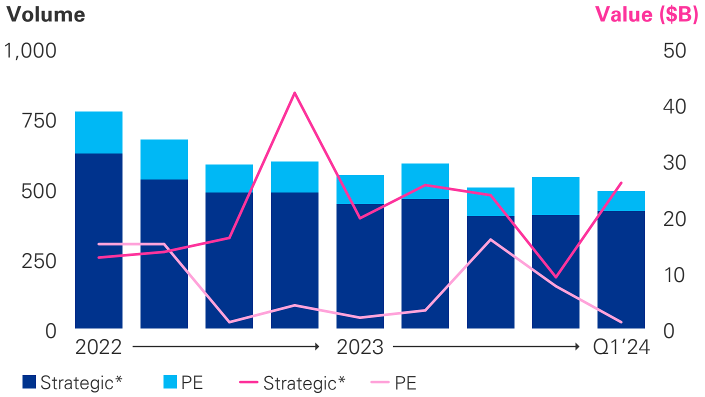
488 deals ▼ **9%** decrease QoQ

$27 billion deal value ▲ **63%** increase QoQ

C&R deal activity by subsector



C&R deal activity by type



*Includes SPAC deal activity

Top consumer & retail deals

Acquirer	Target	Rationale	Value (billions)
The Home Depot, Inc.	SRS Distribution Inc.	To accelerate growth, expand market share, and increase its share of the residential professional customer base by leveraging SRS's assets, capabilities, and market leadership	$18.3
Berkshire Hathaway, Inc.	Pilot Travel Centers LLC	To close on 100 percent ownership and develop a nationwide public charging network to support the expansion of battery-powered electric trucks	$2.6
Walmart Inc.	VIZIO Holding Corp.	To facilitate accelerated growth of Walmart Connect through VIZIO's SmartCast operating system	$2.3
Restaurant Brands International Inc.	Carrols Restaurant Group, Inc.	To improve customer experience, remodel its Burger King restaurants, increase sales and increase franchise profitability	$1.0

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Consumer

Consumer M&A trends

Consumer M&A activity remained subdued compared to the previous quarter, with a significant dip in deal values. The food, beverage, and tobacco industry reported the most notable drop at 104 deals during Q1'24, as opposed to 136 deals announced in Q4'23. In line with the trend, consumer durables announced seven fewer deals, for a total of 53 deals in Q1'24 versus Q4'23. Similarly, personal, home care, and nonfood and beverage consumer packaged goods also witnessed a slight decline in Q1'24, bringing the total to 75 reported deals.

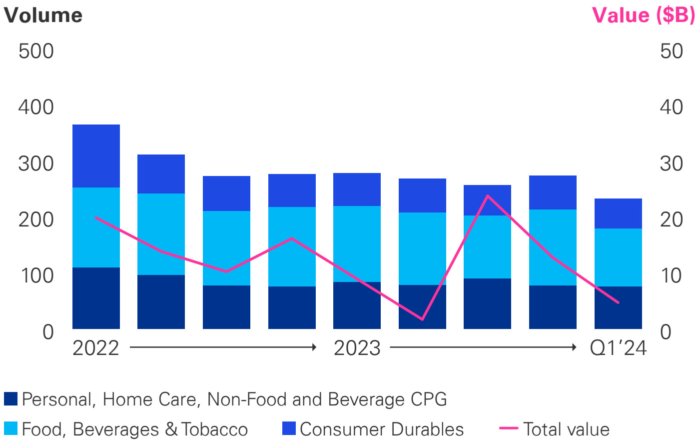
Going forward, KPMG expects to see the trend in consumer M&A activity bifurcate. KPMG anticipates corporates will concentrate on strategic, transformative acquisitions providing leading market shares (or the exit of such businesses reflecting tactical pivots). At the other end of the spectrum, we project smaller acquisitions and disciplined divestments with a focus on cost containment and margin enhancement.

Q1'24 highlights

232 deals ▼ **15%** decrease QoQ

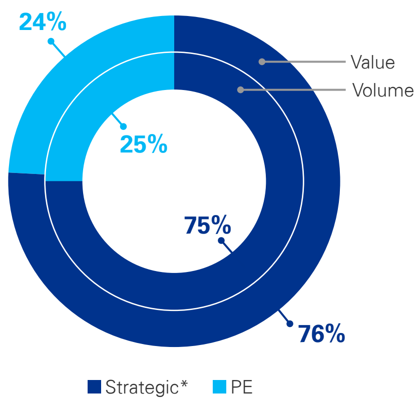
$4.7 billion deal value ▼ **62.8%** decrease QoQ

Consumer deal activity by subsector



Q1'24 consumer PE/strategic mix

Outer ring represents value. Inner ring represents volume.



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Top consumer deals

Acquirer	Target	Rationale	Value (billions)
Walmart, Inc.	VIZIO Holding Corp.	To facilitate accelerated growth of Walmart Connect through VIZIO's SmartCast operating system	$2.3
Suave Brands Company, LLC	ChapStick (brand of Haleon plc)	To build a platform of brands in the personal care category	$0.5
Bridgepoint Advisers	RoC Skincare	To deepen its footprint in the dermatology sector, leveraging the company's success in the skincare industry	$0.5
Compass Diversified	The Honey Pot	To expand The Honey Pot's Feminine Care System and holistic wellness community	$0.4
Kagome Co., Ltd.	Ingomar Packing Company LLC	To strengthen its capabilities for cultivation and processing of tomatoes to boost its U.S. business	$0.2

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Retail

Retail M&A trends

The peak of C&R dealmaking during Q1’24 was retailer The Home Depot’s $18.3 billion deal to buy SRS Distribution, expanding the company’s addressable market by $50 billion to $1 trillion.

The scale of The Home Depot acquisition drove a 470 percent QoQ increase in retail deal values during Q1’24 to $22.3 billion. However, the total number of retail M&A deals declined slightly, with a total of 256 deals—10 fewer than Q4’23.

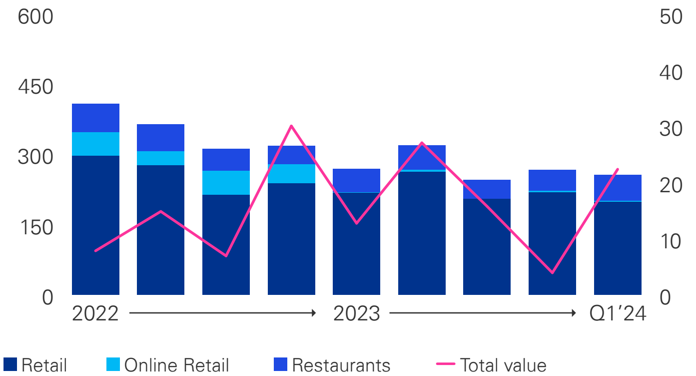
Among retail subsectors, activity increased only among restaurants. The number of restaurant deals increased 27 percent, or 12, to reach a total of 56 in Q1’24. The largest was Restaurant Brands International’s acquisition of Carrols Restaurant Group, the largest US franchisee of Burger King locations, for $1 billion.

Q1’24 highlights

256 deals ▼ **3.8%** decrease QoQ

$22.3 billion deal value ▲ **470%** increase QoQ

Retail deal activity by subsector



Q1’24 retail PE/strategic mix

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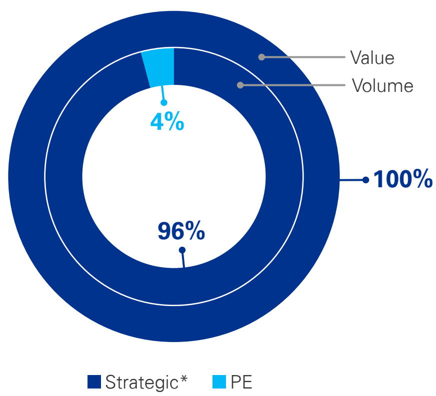

Includes SPAC deal activity

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Restaurant Brands International Inc.	Carrols Restaurant Group, Inc.	To improve customer experience, remodel its Burger King restaurants, and increase sales and franchise profitability	$1.0
Qoo10 Pte. Ltd.	Wish ecommerce platform (ContextLogic)	To realize Qoo10 Pte’s long-stated goal of being a leading cross-border, e-commerce marketplace	$0.2
Grocery Outlet Inc.	United Grocery Outlet	To provide Grocery Outlet with scale in a new region and a platform for future Southeast expansion	$0.1

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PE M&A deals

Retail and consumer PE activity drops

Retail and consumer PE deal value and volume contracted QoQ during Q1’24. Overall, C&R PE deal value dropped 85 percent to $1.1 billion, while the volume fell 48 percent to 70 deals. The most recent period lacked larger deals in comparison to Q4’23, when family office Redwood Holdings’ $4.0 billion acquisition of food ingredient company Newly Weds Foods ranked as the third largest consumer transaction of the year.

Retail and consumer subsectors followed a similar trajectory. The retail segment experienced a significant 64.5 percent QoQ decline to 11 deals in Q1’24 (down from 31), while deals in the consumer segment dropped 43 percent to 59 in Q1’24 (down from 104).

The prevailing economic backdrop has been less than conducive to attractive exit valuations for PE firms, thus pressuring deal value and volume for the last two years. The median holding period of US PE investments increased to 6.4 years by 2023 year-end.[2] As 2024 progresses, KPMG projects a loosening of the logjam toward the end of the year with a stable economic backdrop.

The largest PE deal in the C&R space in Q1’24 was Bridgepoint Advisers’ all-cash acquisition of RoC Skincare, a New York-based skincare company, for $500 million. This marks an important milestone for Bridgepoint as it deepens its footprint in the dermatology sector.

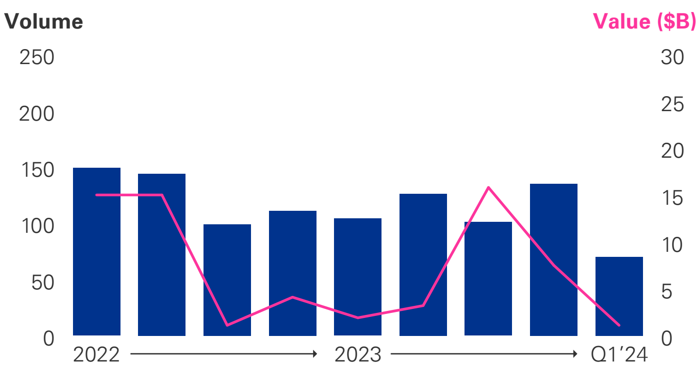
Although PE firms are considering numerous strategies to drive deals, such as public-to-private transactions and acquiring distressed assets, there remains uncertainty in the marketplace. Interest rates continue to be an obstacle to deal consummation, as are tightening FTC regulations.

Q1’24 highlights

70 deals ▼ **48.1%** decrease QoQ

$1.1 billion deal value ▼ **84.9%** decrease QoQ

PE deal activity by subsector



Q1’24 PE/strategic mix

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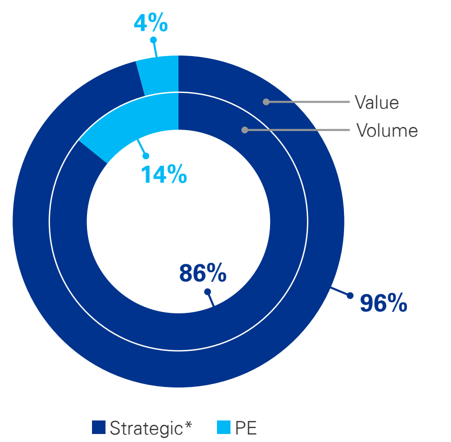

*Includes SPAC deal activity

[2] “Q1 2024 U.S. PE Breakdown,” Pitchbook, April 9, 2024

Top PE deals

Acquirer	Target	Rationale	Value (billions)
Bridgepoint Advisers	RoC Skincare	To deepen its footprint in the dermatology sector, leveraging the company's success in skincare industry	$0.5
Compass Diversified	The Honey Pot	To expand The Honey Pot's Feminine Care System and holistic wellness community	$0.4
Arable Capital Partners, Pacific Trellis Fruit	Progressive Produce	To improve services for its retail, wholesale, and foodservice customer	$0.1
Amberstone, Clayton Christopher, Nutrabolt, The Family Fund	Bloom Nutrition	The company raised capital to create new products, improve internal capabilities, and expand its distribution	$0.1

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Q1'24 beauty and wellness capture funding

Beauty and wellness appear poised for growth

Beauty is the stuff of poetry and philosophy, and a CPG category that captured an estimated $570 billion globally and $116.8 billion in the US last year, according to Euromonitor. In the US, beauty's growth outpaced all general merchandise categories monitored by Circana,[3] led by prestige beauty, and industry participants expect mid-single growth to continue. Perhaps Nicolas Hieronimus, L'Oréal's chief executive officer (CEO), said it best at Consumer Analyst Group of New York (CAGNY) this February:

> "What I'm sure of is that it will remain a growing market… It will grow because we've had the demonstration of what I call the dopamine effect of beauty. Dopamine is the hormone of happiness. And I can tell you that when we listen to consumers, when we do focus groups, when we see consumer behaviors, we see that they use beauty to feel good, to feel better about themselves, not just to look good, but also to feel good in this world where every day on the news they hear things that are not so nice to hear. So this is part of the secret recipe of beauty and why this market continues to grow."

Frank Petraglia
Partner

The beauty category has nuanced, overlapping drivers of consumer engagement (and spending), including looking better, feeling better, and self-care—a permissive, relatively inexpensive indulgence. We expect this trend of holistic wellness integration to permeate the retail landscape, with the beauty sector at the forefront (with athletic apparel and food benefitting as well). We anticipate a continued shift toward products and messaging that encompass not just aesthetics, but also mental, emotional, and nutritional well-being.

The wellness component of beauty products positions brands more deeply into their customers' lives and expands the potential size and scope of the traditional market. Wellness adds 45 percent to the $148.2 billion US beauty and wellness market, or $45.8 billion, according to NielsenIQ,[4] as beauty brands extend their reach to capture share in personal health, supplements, functional beverages, and candles/home fragrance. A key differentiator for both established brands and new market entrants will be the ability to effectively communicate the interconnectedness of health, wellness, and beauty. As brands endeavor to solve consumers' growing demand for wellness and self-care, they will pull mindshare, discretionary, and some non-discretionary spending from traditional health and personal care CPG companies. This will be crucial for capturing consumer interest and driving sales.

The premiumization of beauty is another trend supporting the category's growth. According to Circana, US prestige beauty sales grew by 14%, year over year, to reach $31.7 billion in 2023,[5] with all categories showing double-digit growth. At CAGNY, Coty CEO Sue Nabi spoke to the strength of the prestige fragrance market, reflecting the category's perception as an affordable luxury. Consumers are moving up the fragrance continuum, buying eau de parfum and elixir at price points approximately 30 percent higher than eau de toilette. Unit volume is expanding, too.

Premiumization and wellness provide white space opportunities for beauty companies generally, via selective acquisitions and owned and licensed brands. KPMG expects continued category interest in this sub-sector among both strategic and PE investors in 2024.

[3] "Global state of beauty, and outlook," Circana, accessed April 2024
[4] "Highlights from the CEW state of beauty 2024," Nielsen Consumer, accessed April 2024
[5] Circana, BeautyTrends®, prestige markets, U.S., Canada, Mexico, France, U.K., Spain, Italy, Germany, 2023 vs. year ago

From sluggish to sizzling?

Despite improving consumer and investor sentiment and a solid macro-economic backdrop with positive employment trends, M&A activity in C&R remained sluggish in Q1'24, signaling caution and risk aversion among corporates and PE firms. KPMG believes that the sector's deal activity may remain subdued in the first half of the year as industry players maintain a wait-and-see approach and adjust to the stabilizing economy. The second half of the year could see an active deal pipeline come to market and close by year end.

A silver lining for C&R M&A is the economy's tailwind. KPMG Economics notes that consumer spending remains resilient, the labor market has improved, personal disposable incomes have risen, and interest rates are stable. The hope for rate cuts remains unfulfilled and postponed with the most recent uptick in CPI to 3.5 percent in March from 3.2 percent in February. The PPI increased at a slower than expected 2.1 percent rate, calming markets and suggesting that businesses are seeing inflation moderate. However, the increase in consumer prices as captured in the latest CPI reading is causing industry observers to push back the timing of the first interest rate cut. KPMG Economics is moving in the same direction, and as of May 2024, believes one rate cut is likely for all of 2024. On the flip side, headwinds include political activity in Washington, a more consequential spike in oil prices, election turmoil, and the geo-political uncertainty of two wars.

Several corporates in the US are looking to divest significant businesses as they pivot their models to new consumer segments and preferences. The question of who will buy (PE or another corporate) and at what price is prevalent in today's M&A market. Either corporates will adjust their valuation expectations to catalyze activity or they will wait. PE firms appear more reticent to engage, and corporates are concerned with signaling value to stakeholders and investors, with little appetite for missteps and risk.

KPMG expects CPG and beauty to continue to be very active in 2024 M&A with interest in the influencer/creator space, and we see momentum bubbling up in beverage, particularly around energy and wellness drinks. Leveraging brand equity across a broader swathe of products is driving interest in corporate M&A activity as well, such as e.l.f.'s 2023 acquisition of Naturium, positioning e.l.f. to move beyond makeup and into skincare.

A broader theme in the C&R sector is increased activity around the take-private option, as beleaguered retailers and CPG companies seek to pursue strategies that could be deleterious to short term earnings but advantageous for long-term positioning and profitability.

The year began with a slow start, but cautious optimism remains, given consumers' and businesses' ability to withstand higher prices and the potential for future interest rate cuts (even if farther out than previously anticipated). The sheer abundance of backlogged assets at PE funds, along with corporate assets deemed for sale, create a pent-up transaction queue that will provide a significant tailwind to M&A activity this year.

The risk/reward of M&A is top of mind among C&R corporates

Key considerations as we look ahead

In pursuing M&A in 2024, C&R 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 Profitability

Cost containment and margin compression are top of mind among CPG and retailers.

3 Leveraging brand equity

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

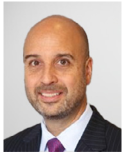
Frank Petraglia
Partner

How we can help you

KPMG helps clients overcome deal obstacles by taking a truly integrated approach to delivering value, leveraging 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 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

Julia Wilson
Principal, Strategy
404-805-2110
juliawilson@kpmg.com

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

Jack Ingram
Partner, Accounting Advisory
404-221-2398
jtingram@kpmg.com

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

With special thanks to:
Ankita Baweja, Naman Dhameja, Marie Driscoll, Lisa Bigelow, and Lara Volpe

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DASD-2024-15164