Ready for liftoff

M&A trends in consumer and retail

Q3'24

kpmg.com

Navigating the stormy seas of consumer spending

A rate cut from the Federal Reserve in September was actualized with the 50-basis point clip to 4.75–5.00 from a 20-year high at the September 16 FOMC meeting. The November meeting yielded yet another 25-basis point cut to 4.50–4.75. Strong growth, debt expansion and likely inflationary post-election policies have prompted Treasury yields to rise despite the Fed lowering rates. Markets responded positively, but the euphoria was short-lived as geopolitical pressures quickly resurfaced, closely followed by hurricane Helene's devastation in Southeastern US and the Longshoremen strike on the eastern seaboard. The latter was quickly and tentatively resolved within three days, while Helene's full impact is being tallied and Moody's Analytics estimates could be as high as $34 billion including $5 billion–$8 billion in productivity losses due to the economic slowdown. Moreover, Hurricane Milton's arrival in October created another drag on the US economy, with preliminary estimates as high as $175 billion[1] from higher fruit and food prices to a short-term hit to employment and income. These economic costs will distort near-term economic activity and will likely be partially offset by future rebuilding in the regions affected.

Amidst signs that the economy is moderating the September jobs report had a drop in unemployment rate to 4.1 percent, where it stayed in October's report,[2] though likely distorted by hurricanes and strikes. Meanwhile, the October CPI reading has consumer prices up 2.6 percent year-over-year (YoY)[3] with the food index up a slower 2.1 percent YoY, supportive of further interest rate cuts in December and in 2025. Fed chair Jerome Powell stated his belief that additional cuts may be warranted "if the economy performs as expected,"[4] providing a nice foundation for the consumer and retail (C&R) sector heading into the holidays and an impetus to consummate M&A deals in the final quarter of 2024 and early in 2025. KPMG Economics has one more interest rate cut penciled in for December; although this is far from certain.

Q3'24 merger and acquisition (M&A) activity reflected a decline in volume but a lift in value, both in the aggregate and in the C&R sector. The total number of deals announced declined 13.2 percent quarter over quarter to 505, while the value of C&R deals increased dramatically by 402 percent to $59.4 billion, driven by Mars Incorporated's $35.9 billion purchase of Kellanova. In the aggregate, we see a similar pattern with total deals declining 16 percent and value increasing 7 percent.[5]

A stringent Federal Trade Commission continued to shadow the C&R M&A environment in Q3'2024. Temper Sealy's proposed sale of 176 Mattress Firm and Sleep Outfitters stores was announced in response to the FTC's challenge to its proposed acquisition of Mattress Firm[6]—the Tapestry/Capri merger, which was proposed in 2023, was abandoned on November 7 by both parties, following the October 24 court ruling granting the FTC motion for a preliminary injunction preventing the combination. Conventional wisdom points to a less aggressive regulator given the recent US general election results, but time will tell.

KPMG LLP (KPMG) is encouraged by Q3'24 deal activity as C&R firms engaged in transactions that strategically align with profitable growth. Q4'24 started with Levi's announcing a formal review of strategic alternatives for the Dockers® brand. This review—which was announced only a few days after kicking off a collaboration Q4'24 with Beyoncé—could include a potential sale or other strategic transaction.[7]

Frank Petraglia
Partner
Deal Advisory & Strategy
C&R Leader

[1] Jeff Cox, "Hurricane Milton Could Cause As Much As $175 Billion In Damages According To Early Estimates," CNBC, 2024, October 8, 2024
[2] "Table A-1. Employment status of the civilian population by sex and age," US Bureau of Labor Statistics, October 4, 2024
[3] "Table A. Percent changes in CPI for All Urban Consumers (CPI-U): U.S. city average," US Bureau of Labor Statistics, November 13, 2024
[4] "Reactions as Powell suggests 50 bp more cuts in store for 2024," Reuters, September 30, 2024
[5] "The Q3 2024 US PE First Look, Q3 2024 US PE First Look," Pitchbook, October 2, 2024
[6] "Tempur-Sealy Provides Update on Proposed Mattress Firm Acquisition," Tempur-Sealy, September 23, 2024
[7] "Levi Strauss & Co. Reports Third-Quarter 2024 Financial Results," Levi Strauss & Co., October 2, 2024

Introduction
The data
Top deals
Deep dive
Outlook
Authors

The data

C&R deals beat last 10 Qs

Dollar volume in C&R hasn't reached these heights since Q4'21, Q3'24 likely marks the end of a market in neutral.

> The larger Q3'24 deals were announced prior to the 50 bps Fed Funds rate cut; the market is thawing."
>
> — Frank Petraglia, Partner

Q3'24 highlights

505 deals

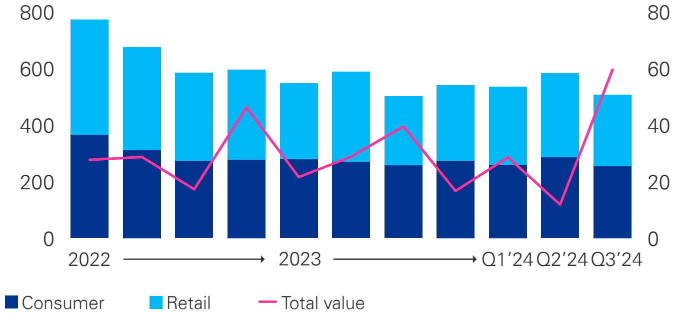
▼ **13.2%** decrease QoQ

$59.4 billion deal value

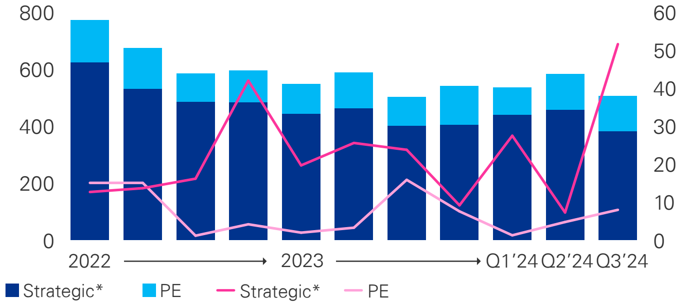
▲ **402%** increase QoQ

Fewer C&R strategic deals drove sector total while PE appears to have stabilized and is poised to accelerate.

C&R deal activity by sector



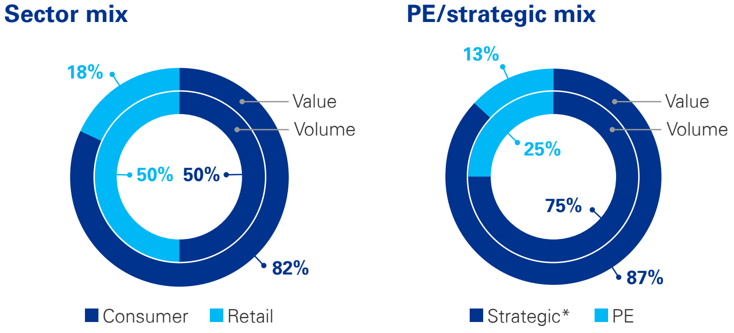
C&R deal activity by type



*Includes special-purpose acquisition company (SPAC) deal activity

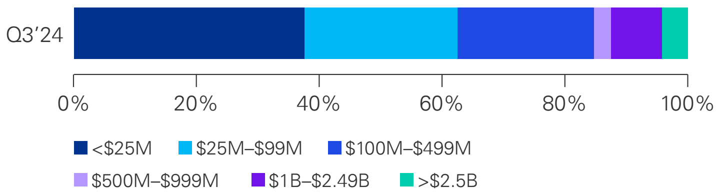
Q3'24 deal mix

Outer ring represents value. Inner ring represents volume.



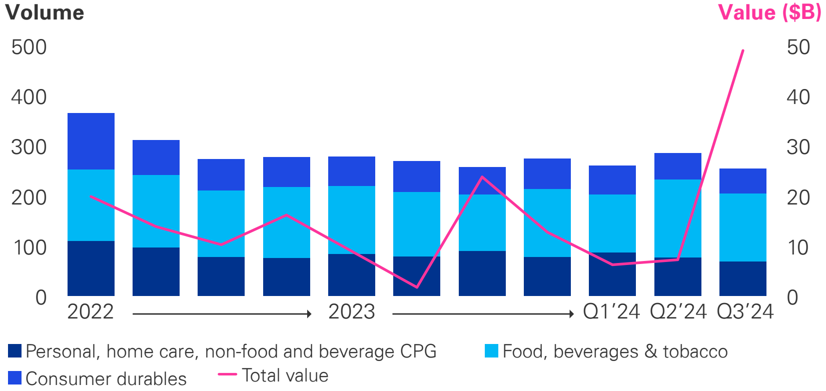
*Includes SPAC deal activity

Q3'24 deal size mix

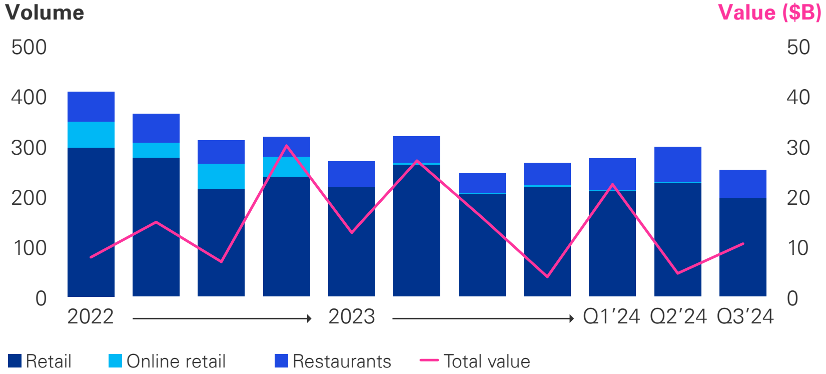


Deal activity by subsector

Consumer



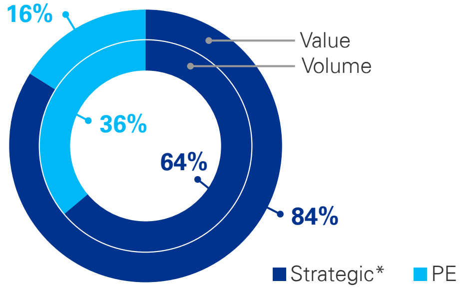
Retail



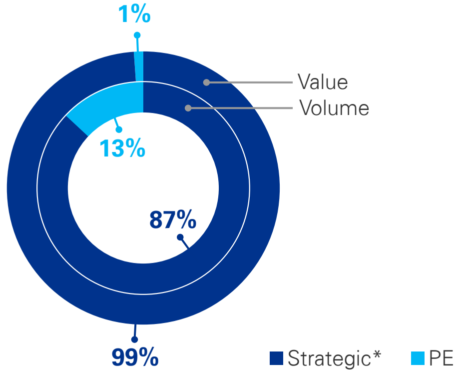
PE/strategic mix

Outer ring represents value. Inner ring represents volume.

Consumer



Retail



Top deals

Acquirer / Target	Value (billion)
Acquirer **Mars, Incorporated** Target **Kellanova**	$35.9
Acquirer **Kohlberg Kravis Roberts** Target **Varsity Brands**	$4.8
Acquirer **Hudson's Bay Company** Target **Neiman Marcus Group**	$2.7
Acquirer **Japan Tabacco Inc.** Target **Vector Group Ltd.**	$2.4
Acquirer **Performance Food Group Company** Target **Cheney Bros., Inc.**	$2.1

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis. The values and volumes data cited are for US deals announced between 7/1/2024 and 9/30/2024. 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 change.

Introduction
The data | Top deals
Deep dive
Outlook
Authors

Deep dive

Portfolio diversification is a remedy for food inflation

In a world where every penny counts, the relentless rise of food prices in many regions reflects broader inflationary pressures challenging for both consumers and CPG companies. Prolonged grocery and general merchandise inflation is undercutting growth at numerous CPG companies. The unfolding drama reveals a grim reality: as grocery costs soar, families are forced to make unprecedented choices, pitting necessity against affordability in a desperate bid to keep pace. The narrative is not just about foregoing chocolate bars and gourmet treats—it's a broader struggle for survival in an economy where the cost of living relentlessly outpaces wage growth.

Facing the frenzy

Through July 2024, prices for food at home was still 27 percent above pre-pandemic levels (29.7 percent for food away from home) versus a 20 percent lift to wage growth according to a Circana[8] analysis—this underscores the ongoing adjustment to both global economic shifts and domestic policy responses. The gap between rising food prices and slow wage growth shows that many consumers are struggling and becoming more cautious with their spending, often seeking promotions, discounts, or opting for cheaper, private-label products to stretch their budgets.

According to the recent Consumer pulse Back-to-school Consumer and Retail survey from KPMG, most consumers believe that prices have increased over the last six months across a wide variety of categories, especially groceries (79 percent) and restaurants (77 percent), with 81 percent expecting to spend more on groceries. Of all the categories tracked, consumers are most concerned with inflation in grocery and intend to change their behavior in numerous ways. Among the 68 percent of grocery consumers who have observed price increases, 41 percent plan to purchase more groceries on promotion or discount and 29 percent plan to purchase private label products to circumvent higher costs.

Recent comments from various CPG companies confirm a discriminating consumer being more selective in a tough environment. Speaking at Barclays 17th Annual Global Consumer Staples Conference September 4, Anna Olive Magdelene Manz, EVP, CFO Nestlés NA, said "at H1 the consumer environment is challenged, and it remains challenged. If anything, it's slightly tougher. You see the weakness here in the US with the consumer. We see that more broadly across Europe, and that gives also a challenged retail environment as margins are challenged. Then across the emerging world, we've got the challenges of currency and the cost of capital. And that is showing up with the challenged consumer in some places."

At the same conference, Dirk Van de Put, chairman and CEO of Mondelez International said, "We are confronted with two big things for next year. One is the consumer and how long this suppressed consumption pattern is going to continue and what do we do with it. And second, we have the cocoa inflation that is a temporary offset, but it's there."

Confectionary companies are dealing with spikes in cocoa prices on the magnitude of 53 percent year to date through

[8] Don Unser, Larissa Jensen, "Retail Trends," Circana, September 2024
[9] "Global price of Cocoa," Federal Reserve Bank of St. Louis, October 9, 2024

August and 98 percent year over year,[9] illustrating the intricate dynamics between global market fluctuations and trade policies and revealing the multifaceted challenges of managing cost inflation. As confectionaries attempt to pass through some cost inflation, consumers are turning to lower priced alternative sweets, discovering jellies and gummies, and trading up and down the price continuum from mainstream to premium and artisan chocolates. Hershey announced its purchase of Sour Strips in November enhancing its presence in the sour candy category, expanding its consumer reach and fortifying its growth platform According to the National Confectionaries Association (NCA) chocolate unit sales dropped 5 percent year over year as of August 11, 2024,[10] although sales rose 1.5 percent to $21.4 billion.

KPMG generally advises CPG brands across sweets, snacks, savories, and packaged goods to ladder pricing options and diversify product portfolios to address the inflationary constraints of lower income households while capturing the spend of a higher income demographic, as well. At retail, grocers should merchandise along a “good, better, best” strategy by incorporating private label to gourmet offerings as consumers trade up and down the price continuum based on their financial profile and personal values. Diversification across product categories is also prudent given the diversity of the US population and its rapidly changing taste palate. Large retailers that can discount will benefit with market share gains in the current environment.

Alexandria Mainiero
Managing Director
Deal Advisory & Strategy

[10] “Sweet Insights 2024 Getting to Know Chocolate Consumers,” National Confectioners Association, 2024

The future looks bright

Amidst heightened geopolitical tension, natural disasters, and a quickly resolved presidential election in the US, our outlook for M&A activity for the final quarter of 2024 and into 2025 is improving, although 2026 looks weaker due to inflationary post-election policies. Inflation is moderating and higher wages support muted consumer spending growth in Q4'24 and next year. A more accommodative financial environment should allow for further interest rate cuts. KPMG economists expect one additional quarter-point cut in short-term interest rates to come out of the Fed's final meeting of the year, with further cuts anticipated in 2025.[11]

Results from the US general elections strongly suggest a unified government, which bodes well for future dealmaking.

KPMG hosted its 23rd Annual M&A and Economic Forum October 16–17, key takeaways from which included:

1. Corporates are making a comeback in the deal space, which is a positive sign for business.
2. There's a growing optimism about the US economy, which is good news for all.
3. The need to find passion in your career, and the importance of relationships and health.
4. A reminder to be wary of the long-shot bias.

Key considerations as we look ahead

As a number of uncertainties in the market have been mitigated in the past several months, it seems the M&A waiting game is over. That said, transactors need to remain patient and disciplined in approaching the market. Particular attention should be focused on:

1. **Purpose driven M&A**
   Engage in deal activity with conviction around a stated business objective which the M&A lever can deliver.
2. **Long-term thinking**
   Resist the urge to respond to short-term consumer whims; rather lean into the longer-term trends that can drive symmetry in your product portfolio.
3. **Differentiated value creation**
   Approach M&A opportunities with a holistic approach, focusing on the unique advantages a target business will enjoy within your portfolio—and develop a detailed plan to realize the value.

[10] "https://kpmg.com/kpmg-us/content/dam/kpmg/pdf/2024/october-2024-economic-compass.pdf"

Authors

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

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

Alexandria Mainiero
Managing Director
Deal Advisory & Strategy
312-665-4735
amainiero@kpmg.com

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

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

Jack Ingram
Managing Director
Deal Advisory & Strategy
404-221-2398
jtingram@kpmg.com

With special thanks to: Marie Driscoll, Michael Gelfand, Mridani Krishna, Abhinita Mathur, Tara Nelson, Kathy Nichols, and Anshita Tripathi

How KPMG can help

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.

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

Please visit us: in | **kpmg.com** | **Subscribe**