M&A trends in C&R

Betting on the consumer comeback

2021

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Introduction

Deals to help capture the online consumer

There was a shopping spree in the consumer and retail (C&R) M&A market in 2021. A total of 3,135 deals involving U.S.-based C&R companies were announced—up 33.5 percent from 2020 and the highest since 2017. Total deal value soared to $225 billion, an increase of 40.7 percent over the previous year. The growth, however, was heavily skewed toward consumer: while the value of retail transactions was up 8.7 percent, consumer deal value nearly doubled.

In 2021, M&A in both consumer and retail was driven by a couple of key trends that have been gaining momentum since the COVID-19 recession of mid-2020: accelerated digitization to reach online customers and rising demand for products and services that help promote health and wellness. In a survey of top C&R executives by KPMG at the end of 2021, the number one reason cited for acquisitions and divestitures was to improve e-commerce and direct-to-consumer capabilities.

The healthy-lifestyle trend drove many deals in both consumer and retail. Levi's, for example, announced the purchase of "athleisure" player Beyond Yoga in August of 2021 for an undisclosed amount. Nestlé sold its tea and commodity bottled-water brands and agreed to pay $5.8 billion for Bountiful Company, a maker of nutrition supplements.[1]

Competition for attractive assets was extremely intense in 2021. U.S. private equity firm Clayton, Dubilier & Rice, for example, edged out Fortress Investments in an unusual one-day auction for the U.K.'s Wm Morrison Supermarkets with a $9.4 billion bid.[2]

The lines between online and offline businesses continued to blur. DoorDash agreed to buy Wolt Enterprises, a Finnish food-delivery platform that operates in 23 countries, for $8.10 billion.[3] In August 2021, salad chain Sweetgreen acquired robotic kitchen company Spyce for an undisclosed amount.

In 2021, other notable C&R trends included:

— Private equity firms, with an estimated $2 trillion-plus in dry powder, were the most active buyers, The value of PE deals in C&R rose 89.8 percent, from $44.7 billion in 2020 to $84.8 billion in 2021. There were 17 deals valued at more than $1 billion. For example, Thoma Bravo's acquired Stamps.com for $6.6 billion.

— In retail, the number of deals for e-commerce properties more than doubled, as strategics looked to beef up their online capabilities. Of 271 e-commerce deals, strategics were the buyers in 236 deals, PE firms had 25 deals, and there were 10 special purpose acquisition company (SPAC) transactions.

— Companies also continued to reshape and optimize portfolios, divesting slow growers and acquiring growth vehicles. Adidas sold its lagging Reebok brand to turnaround specialist Authentic Brands for $2.5 billion in August. Fashion retailer PVH Corp sold Heritage Brands, makers of IZOD, Van Heusen and Arrow, for $223 million, also to Authentic Brands. Authentic Brands also bought Eddie Bauer 2021 for an undisclosed amount.

Key statistics

+34%
change in total C&R deal volume from 2020 (2,348) to 2021 (3,135)

+41%
change in total C&R deal value from 2020 ($160 billion) to 2021 ($225 billion)

+95%
change in total Consumer sector deal value from 2020 ($60 billion) to 2021 ($116 billion)

+9%
change in total Retail sector deal value from 2020 ($101 billion) to 2021 ($109 billion)

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[1] Source: Nestlé completes acquisition of The Bountiful Company core brands, nestle.com, Aug. 9, 2021
[2] Source: Ben Dummet, Clayton, Dubilier & Rice win bidding war for Morrisons, fnlondon.com, Oct. 4, 2021
[3] Source: DoorDash Joins Forces with Wolt, ir.doordash.com, Nov. 9, 2021

By the numbers

A huge year for consumer deals

Total deal volume in C&R rose 33 percent to 3,135 transactions. There were 1,603 retail deals versus 1,171 in 2020 and 1,532 transactions for consumer assets, up from 1,177 in 2020. The value of consumer deals rose dramatically, from $59.5 billion in 2020 to $115.9 billion in 2021, nearly doubling. By contrast, the value of retail deals went from $100.6 billion in 2020 to $109.3 billion, up by a relatively modest 8.7 percent.

The volume of transactions by strategic investors increased from 1,804 to 2,427, while the overall value of strategic deals rose from $109.6 billion to $122.4 billion.

Despite the falloff in new SPAC issuance in 2021, the number of C&R acquisitions by special purpose acquisition companies (SPACs) jumped 170 percent to 27. Total value of these deals was $18.1 billion in 2021, more than triple the 2020 value of $5.8 billion (see "SPACs turn to C&R").

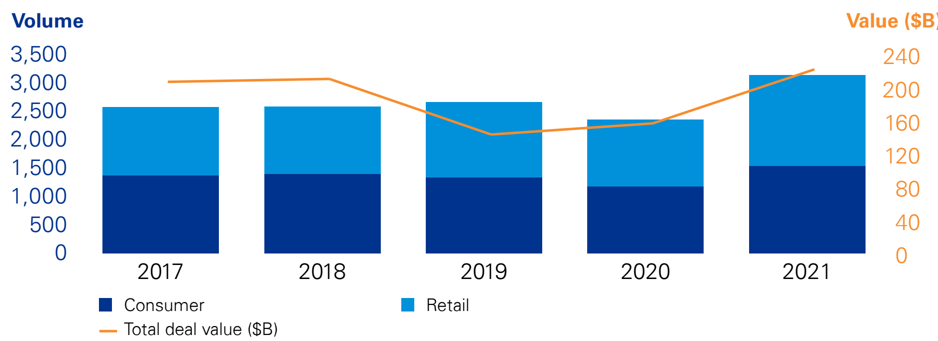
Within consumer subsectors, there was a 45.3 percent jump in deals for durable goods, from 289 to 420—a sign of faith in the consumer recovery. In food, beverages and tobacco, there were 645 deals compared with 530 in 2020, a 22 percent increase. Deals for personal care, home care, and other nonfood and beverage assets rose 30.4 percent from 358 to 467.

There was a surge in both outbound and inbound cross-border deals. U.S. companies announced deals for 369 foreign firms, a 67.7 percent increase from 2020. Foreign investors announced deals to buy 498 U.S. C&R companies, an increase of 24.5 percent over 2020.

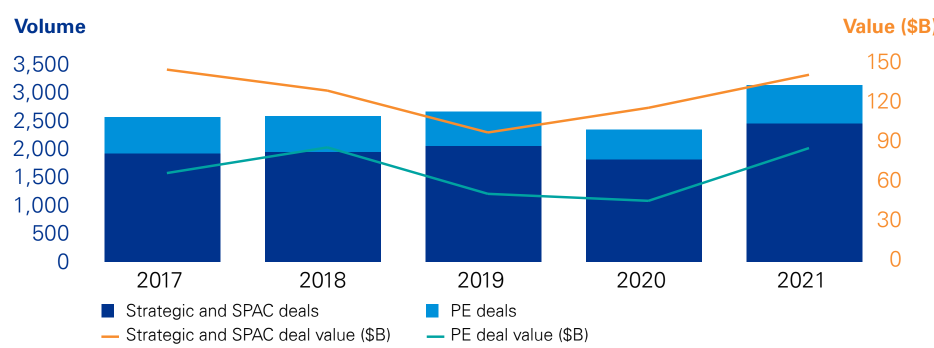
Top C&R deals in 2021

Acquirer	Target	Value (billions)
Amazon	MGM Holdings	$10.6
Clayton, Dubilier, and Rice	Wm Morrison Supermarkets	$9.4
DoorDash	Wolt Enterprises	$8.1
Thoma Bravo	Stamps.com	$6.6

U.S. C&R activity by sector



Strategic, PE, and SPAC C&R deals



About the data: Data was sourced from CapitalIQ, Refinitiv, Pitchbook, and KPMG analysis. The values and volumes data cited are for U.S. deals announced during the year. Previously published statistics may be restated to incorporate new data and/or changes in deal outcomes.

By the numbers

Consumer and retail overview

Deal making in consumer and retail was driven by two major forces in 2021; The continuing shift in consumer tastes toward healthy lifestyles and the continuing growth of e-commerce.

In the consumer sector, there were 1,532 deals in 2021, an increase of 30.2 percent compared with the year before. Deal value nearly doubled, from $59.5 billion in 2020 to $115.9 billion in 2021. Many deals involved reshaping portfolios to emphasize healthy lifestyles. For example, Unilever bought Liquid IV, a company that makes electrolyte beverages; Onnit, which makes protein powders and other health supplements; and Smartypants Vitamins.[4]

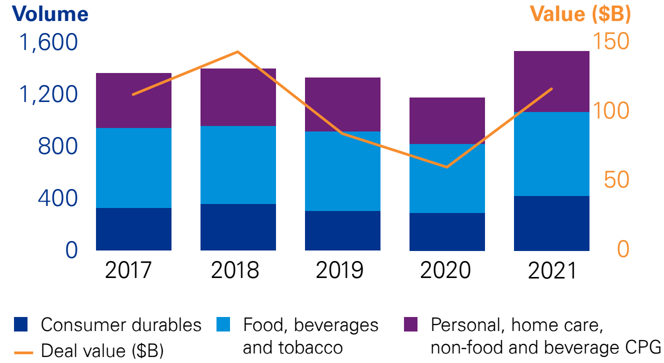
Levi's also increased their focus on health and wellness in 2021. In August, it announced that it was buying Beyond Yoga for in an all-cash deal (terms were not disclosed). Levi's says the deal will add $100 million per year to net revenue. Beyond Yoga sells most of its goods to women over the internet, helping Levi's connect more with female customers.[5]

In the retail sector, there were 1,603 deals in 2021, compared with 1,171 the year before, an increase of 36.9 percent. Despite the surge in deal-making, deal value only rose from $100.6 billion to $109.3. Food delivery firm Doordash acquired Wolt, a Finnish-based European food delivery firm, expanding its global footprint, for $8.1 billion, while German rival Delivery Hero announced it would buy Spain's Glovo delivery service, for $2.6 billion.[6]

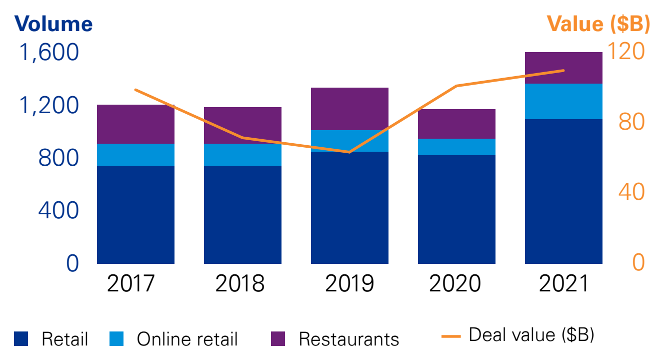
Etsy, the online retailer best known for arts and crafts, acquired Depop for $1.6 billion. Depop is a "fashion resale marketplace" that is popular with Generation Z shoppers. Uber announced a deal to acquire Drizly, an "on-demand alcohol marketplace," for $1.1 billion.[7]

Private equity deal value also surged during the year, reaching $84.8 billion, an increase off 89.8 percent over the previous year's deal value. The number of deals also rose from 534 in 2020 to 681 in 2021. Among the big PE deals: U.S. PE firm Clayton, Dubilier, and Rice edged out rivals with a $9.4 billion announced acquisition of UK supermarket chain Wm Morrison and Thoma Bravo announced a plan to take Stamps.com private for $6.6 billion.[8]

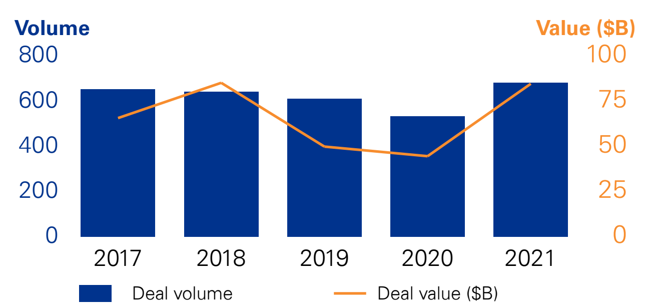
Consumer deal volume and value by sub-sector



Retail deal volume and value by sub-sector



PE volume and value



[4] Source: "Acquisitions & disposals 2021," Unilver.com

[5] Source: Lauren Thomas, "Levi Strauss to buy apparel brand Beyond Yoga, launching into activewear," CNBC.com, August 5, 2021

[6] Source: "Delivery Hero Acquires Majority Stake in Glovo," Bloomberg.com, Dec. 31, 2021

[7] Source: "Uber to Acquire Drizly," uber.com, Feb. 2, 2021

[8] Source: John J. Edward III, "Stamps.com Agrees to Thoma Bravo Buyout in $6.6 Billion Deal," Bloomberg, July 9, 2021

Notable trends

C&R M&A trends:

ESG momentum

C&R companies continue to respond to consumer and investor to make progress on environmental, social, and governance issues (ESG). As a result, companies are increasingly using M&A to buy brands with good sustainability ESG programs. For example, in July, Pareto Beauty, announced plans to acquire Intrepiqid solutions, a packaging solutions company. The goal is to develop more environmentally friendly packaging strategies, such as using plastics recycled from ocean waste.[9] Beverage giant Pepsico announced new sustainability strategy in September, which included a plan to become "net water positive" by 2030.[10]

C&R M&A trends:

Cashing in on pets

Pet ownership has grown during the pandemic and C&R companies are paying attention. Companies in the pet food business are expanding their reach by acquiring new brands, and packaged food companies that previously focused on human nutrition are branching out to offer pet foods and treats.

In September, food processing giant ADM announced that it is acquiring a majority stake in P4 Companies, a private-label pet food firm, for $600 million.[11] In August, Health & Happiness Group International Holdings Ltd. announced that it would acquire Zesty Paws, a pet supplement brand, for $610.0 million.[12]

C&R M&A trends:

Home maintenance

As the pandemic continues, consumers are focused on home maintenance projects. That has translated into a growing number of M&A deals in the home care segment. In July, At Home Group, a home décor superstore, was acquired by Hellman & Friedman, a private equity firm, in a deal valued at $2.8 billion.[13] In August, Stanley Black & Decker, the iconic tool company, acquired the remaining 80% stake it didn't own in MTD Holdings, a US-based lawn mower maker, for $1.6 billion.[14]

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[9] Source: "Pareto Beauty Acquires Consumer Plastics Consulting Group Intrepiqid from Dallas, Texas", July 20 2021, PR.com

[10] Source: "PepsiCo Centers Sustainability With Its Pep+ Strategy", September 20, 2021, Forbes

[11] Source: "Archer Daniels (ADM) Steps Up Its Pet Game, Adds P4 Companies", September 9, 2021, Nasdaq.com

[12] Source: "Feel-Good Deal: Zesty Paws $610M Sale Shows Potential Of Pet Wellness Market", August 29, 2021, Forbes

[13] Source: "Hellman & Friedman Completes Acquisition of At Home" July 23, 2021, Businesswire.com

[14] Source: "Stanley Black & Decker to buy remaining stake in MTD Holdings for $1.6 billion in cash", August 17 2021, MarketWatch

ESG:

ESG, a new deal thesis variable

In 2021, British consumer packaged goods (CPG) giant Unilever sold its low-growth tea business for $5.1 billion.[15] It also bought several high-growth businesses, including Paula's Choice, a direct-to-consumer cosmetics company that helps the environment by recycling empty makeup bottles.[16] This was a sign of changing times in the C&R sector.

Companies increasingly deployed active portfolio management strategies to divest slow-growth units and acquire firms with a reputation for sustainability—not just to bolster their corporate image, but also to increase their bottom line. Sustainable products are good for the environment and command higher prices from consumers, which drives higher valuations.

Many companies are now actively managing their portfolios, ESG risks—and, for example, transitioning high-emission units to lower-carbon, climate-friendly operations. Recent M&A activity in the sector has centered on companies that specialize in reducing packaging, or recycling plastic or other waste.

In October, for example, private equity firm Nuveen Investments invested $169 million in Do Good Foods, a startup that reduces waste by upcycling surplus grocery products.[17] Another example of the move toward sustainable M&A was the decision by McCain Foods, the world's largest producer of French fries, to acquire a minority stake in Strong Roots, an Irish frozen-meal manufacturer that focuses on plant-based, environmentally responsible products.[18] Other food companies have realized the profit potential of moving into direct-to-consumer businesses that specialize in healthy-eating alternatives, especially with the focus on wellbeing spurred by the pandemic.

A second shift is that consumer and retail companies are looking beyond reducing harmful emissions to ask the broader question: How can we be a force for positive action? In the social sphere, C&R executives are grappling with gender and race issues and exploring how to make their firms more diverse. Creating an equitable system for previously underrepresented groups has become a major consideration, not only in business but in the wider community.

Sustainable products are good for the environment and command higher prices from consumers, which drives higher valuations.

Although the general trend is clear, companies in the C&R sector, faced with diverse challenges, are adopting ESG strategies at distinctly different speeds. Many food and beverage companies, for example, conscious of the industry's historical reputation for high greenhouse-gas emissions and concerning labor practices, are now well ahead of most apparel manufacturers in embracing sustainability. Other firms are just taking their first tentative steps to address such issues.

Thanks to many years of implementing continuous improvement and lean management programs, consumer-goods firms have been traditionally better at handling environmental and labor issues than retailers, but this is changing.

Retailers have set up electricity co-generation plants, installed solar panels on manufacturing facilities, and are investing in electric delivery vans. Mondeléz International, the giant snack company that produces Oreo cookies and Cadbury chocolate, has not only vowed to use sustainably sourced ingredients, but also to derive 20 percent of global snack net revenue from "portion control products."[19]

Looking ahead to 2022, because of the difficulties CPG companies face in transforming existing brands into popular, sustainable products, the faster option is likely to be an expansion of efforts to buy brands that already have a reputation with consumers for being healthful and taking care of the planet. To fund these acquisitions, companies are selling slow growth businesses to private-equity buyers that have the expertise to transform them and rehabilitate their image. Count on an uptick in M&A transactions in the sector driving valuations even higher.

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[15] Source: Pan Demetrakakes, "Unilever Sells Most of Tea Business," foodprocessing.com, Nov. 19, 2021
[16] Source: "Unilever to acquire Paula's Choice skincare," unilever.com, June 13, 2021
[17] Source: "Nuveen makes $169M foundational investment in game-changing upcycling platform", October 12, 2021, Global AgInvesting
[18] Source: "McCain Secures Minority Stake in Strong Roots," specialtyfood.com, December 8, 2021
[19] Source: "Oreo Owner Mondelez Plays Sustainability Card With Heinemann In Norway", September 8, 2021, Forbes

Alternative deals:
SPACs turn to C&R

While sponsors of SPACs initially focused on fast-growing technology and biotech startups, in 2021, SPACs turned their attention the consumer and retail sector. C&R accounted for only 5 percent of the market for SPACs, also known as blank-check companies, but in the last year SPAC transactions grew 170 percent (from 10 to 27 deals).

For example, private-equity firm KKR raised $1.2 billion in an IPO for a SPAC headed by Glenn Murphy, former CEO of the Gap, that is targeting C&R acquisitions. In November 2021, a SPAC founded by two former executives of L'Oreal North America announced that it had merged with a skincare company and a makeup brand to create a beauty company called Waldencast valued at $1.2 billion.[20]

C&R companies have moved into the limelight for several reasons, including a lack of suitable TMT and biotech targets after the huge SPAC wave of late 2020 and early 2021. Another attraction for SPAC acquirers: C&R players—particularly those heavily involved in e-commerce, have amassed huge amounts of data about their customers and are exploiting the information in various ways, including by offering their data and sales-management technology as a service to other companies.

A prime example of this approach was the $900 million merger acquisition of Boxed, an e-commerce retailer, by a SPAC called Seven Oaks Capital Management. Dubbed the "Costco for millennials," Boxed's primary business is online sales of bulk products with no annual membership fees. A major attraction was that the company began monetizing its advanced e-commerce platform by offering it to other retailers as a software-as-a-service (SaaS) product, gaining customers in overseas markets like Malaysia.[21] Unlike core C&R businesses, which fluctuate with the economy, the SaaS business offers a predictable source of revenue.

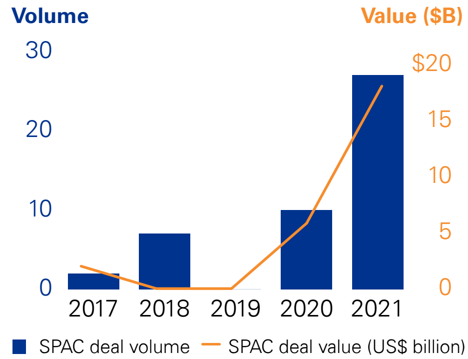
This is a huge advantage for SPACs, which have to establish credibility in the public markets. Indeed, many early SPAC mergers involved new companies without a record of profitable performance; some SPACs have even purchased companies at the pre-revenue stage. C&R companies are well understood by investors and steady revenue from data and technology can help build investor interest.

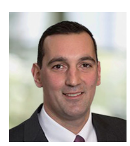
One of the big attractions of SPACs for sellers is the merger process is much shorter and far less work than a traditional IPO. A SPAC deal can close in three to four months, compared to six to nine months for an IPO, in part because the Securities and Exchange Commission review process is far less onerous. Sellers also benefit because the SPAC team is typically managed by executives with deep experience in the industry.

The SPAC market is not without risk. For example, companies considering a SPAC merger should pay attention to the recent rise in redemptions at SPACs. When a SPAC raises financing in an initial IPO, it sells shares and warrants to buy shares, usually at $10 each, with a right to redeem the shares at the IPO price at the time the merger takes place. Because the share price of a SPAC tends to decline on the secondary market before a merger, activist investors have been buying the shares at a discount and then redeeming them at the IPO price for a quick profit.

In 2020, the number of redemptions was around 20 percent of the outstanding shares, but in 2021 the average neared 50 percent. As the redemptions rise, the concern is that the company will have to raise outside financing through alternate investment firms, which is known as private investment in public equity, or PIPE financing. But PIPEs involve high fees, which can make the financial future of the firm more difficult.

SPAC deals, value and volume





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[20] Source: "SPAC Led by Former L'Oreal Executives to Form $1.2 Billion Beauty Company", November 15, 2021, Wall Street Journal

[21] Source: Russell Redman, "Boxed looks to license e-commerce technology internationally," Supermarket News, Sept. 13, 2021

Consumer & retail:
Digital disruptors

Consumer and retail companies have often been caught trying to play "catch-up" in digital technology. In 2021, C&R leaders increasingly sought to become digital disruptors as they invested in leading-edge start-ups, made venture investments, and bet on emerging technologies. C&R players are developing new technology and incubating those businesses to learn from the startups' management teams and products. They are forging alliances to get access to technology, data, and digital capabilities.

A prime example of this digital wave was Walmart's November 2021 acquisition of "select technology assets" from startup Botmock to jump ahead in "conversational commerce." Botmock, launched in 2016, has built a "no-code" platform for designing, developing, and testing "conversational" applications. Walmart says it will use the Botmock technology to create bots that can understand customer questions and respond in natural-sounding voices and text messages.[22]

In March, Yum Brands, owner of KFC, Pizza Hut, and Taco Bell, announced two tech acquisitions. The first was Kvantum, which uses algorithms and machine learning to help brands understand consumer behavior and make informed media decisions. Later in the month, Yum announced it would buy Tictuk Technologies, an Israeli company that specializes in conversational commerce. Tictuk developed an intelligent online ordering system that it says can guide customers to complete their orders in under 60 seconds through social media and chat channels.[23]

> After two years of ordering everything from burritos to sofas online, consumers have come to expect "Amazon Prime" levels of service.

Other tech investments by C&R players are aimed at improving online services. After two years of ordering everything from burritos to sofas online, consumers have come to expect "Amazon Prime" levels of service. A major focus of investments in conversational retail is aimed at beating the customer experience standards set by Amazon. Walmart, for example, is spending $14 billion on capital investment to help match Amazon delivery services. The retail giant is building local fulfillment centers for online purchases at store locations and other facilities and is equipping them with robots that zip around the facility, gathering merchandise for humans to pack for shipping.[24]

Home Depot, whose online sales jumped 86 percent during the pandemic, is partnering with Walmart's GoLocal delivery service to provide same-day and next-day delivery.

In November, Macy's announced that it is investing in a curated digital marketplace that will allow select third-party vendors to sell merchandise on Macy's and Bloomingdale's online stores. The initiative involves a partnership with Mirakl, a developer of B2B and B2C e-commerce platforms. Macy's says the deal will help it reach its goal of $10 billion a year in online sales by 2023.[25]

In 2022, we're likely to see more technology investments and partnerships, as C&R players strive to find ways to improve their digital capabilities and the customer's experience

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[22] Source: Walmart has acquired Botmock, a no-code platform for developing conversational application, Inside Nocode, November 4, 2021

[23] Source: Amelia Lucas, "Taco Bell owner Yum Brands buys social media ordering platform in second tech deal of the month," CNBC.com, March 24, 2021

[24] Source: Tonya Garcia, "Walmart adding dozens of automated local fulfillment centers to speed delivery and pickup orders," marketwatch.com, January 27, 2021.

[25] Source: "Macy's, Inc. Announces Plans to Launch Curated Digital Marketplace," Mirakl press release, November 18, 2022

Outlook

The upward trajectory is likely to continue

Based on the KPMG survey of C&R executives, M&A for the C&R sector in 2022 is likely to remain on an upward trajectory. Some 60 percent of the executives polled said they expect to increase transactions in the coming year; a quarter of these executives, predicted that they will do three to five more deals in 2022 than in 2021. However, a majority also believe that valuations will increase significantly in 2022, making successful deal making more challenging.

The outlook from KPMG economists is for a slowdown in growth in the first quarter, followed by better growth through the rest of the year. The recovery is unlikely to be derailed; full-year GDP growth of 3.5 percent for 2022 is possible. That's off the sizzling pace of 2021, but still twice the average annual GDP growth from 2000 through 2019.

One possible headwind for the C&R sector is an expected shift back to spending on services and away from purchasing goods as the recovery continues and, barring major COVID-19 outbreaks, consumers can travel, eat out, and engage in social activities. This could impact online and in-store retail. Even so, we believe that 2022 will be another good year for M&A in consumer and retail.

Key considerations as we look ahead

Winning deals in this hyper-competitive deal market require strategics and PE sponsors to be increasingly nimble, while building stronger conviction in their deal thesis. Three actions can help buyers win the M&A battle ahead:

1

Evolve your business diligence approach: Combine traditional commercial and market assessments with product and technology strategy assessments to build greater confidence in your valuation assumptions and projections.

2

Harness the power of data analytics: Standardize common sector-specific analyses to accelerate time to insights. This leaves cycles free to deploy more advanced analytics to identify unique value drivers you can bank on.

3

Cast a wider lens on value creation: Use ready-to-deploy value-creation playbooks that help you do everything possible in the search for growth and operational opportunities. Seek potential upside with data, digital and technology evolution.

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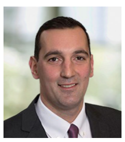

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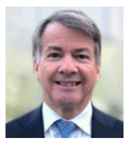

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