SORTINO M&A GROUP

Consumer & Retail Outlook

Head of Division: Artemiy Safronov

Analysts: Noor Sayyeda | Arun Giri | Timothy von Seidlein | Kwang Wei Tan | Siddh Patel | Lewis Nguyen

Table of Contents

Key Players and Key Information

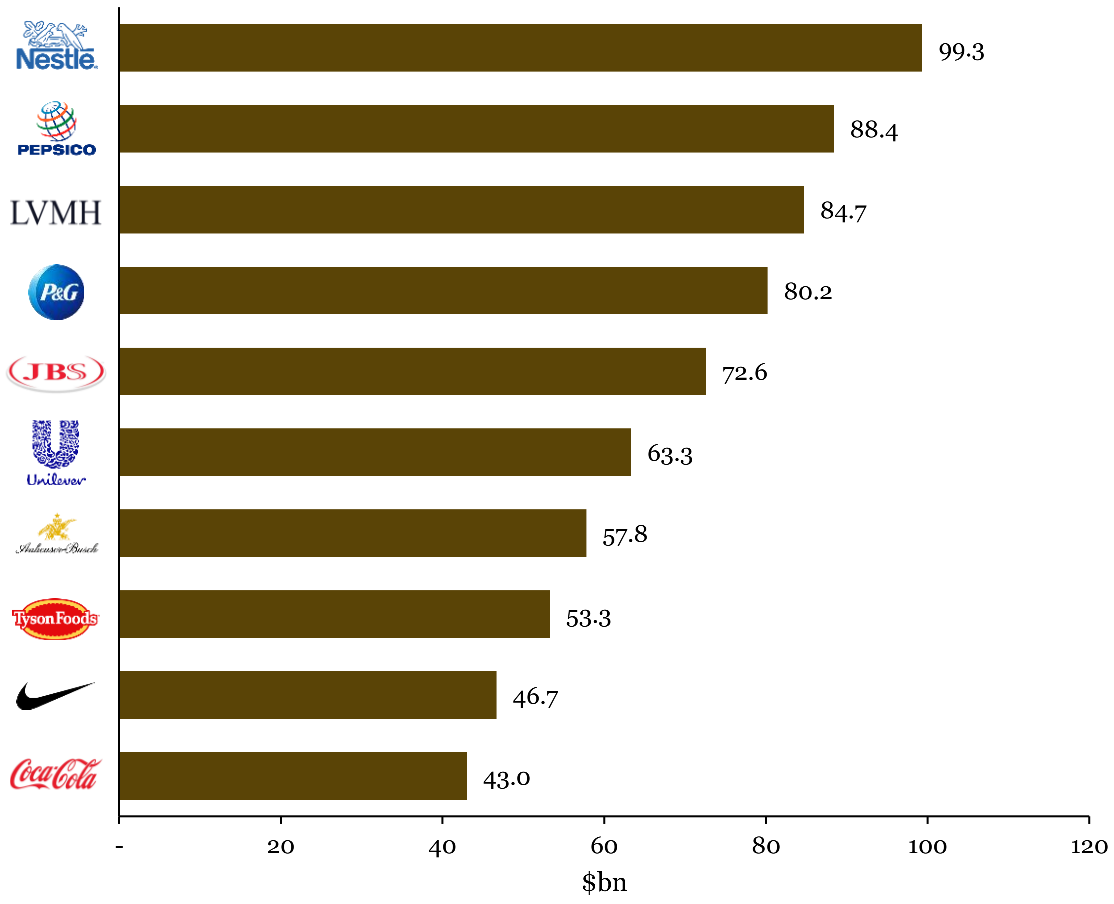
The C&R Industry is best defined when separated into two sub-industries, Consumer Goods, and Retail

Overview

Consumer Goods are products that are purchased by individuals for personal or household use. These goods are intended to satisfy the immediate needs and desires of consumers and are typically classified into two main categories: *durable goods*, which are long-lasting items like appliances and furniture, and *non-durable goods*, which are quickly consumed or used up, such as food and toiletries. Consumer goods can also be characterized by their demand patterns, with some being essential and consistently needed, while others are more discretionary and influenced by economic conditions.

The **Retail industry** encompasses businesses and activities involved in selling goods and services directly to consumers for their personal or household use. This industry includes a wide range of establishments, from physical storefronts like supermarkets, department stores, and boutiques to online retailers and e-commerce platforms. Retailers purchase products from manufacturers or wholesalers and then market, display, and sell these products to the end consumers, often providing additional services like customer support, financing options, and product returns.

Top 10 Consumer Goods Companies by Revenue (2023)



Food and Beverage
Overview

SORTINO
M&A GROUP

Food & Beverage Market Trends

Food & Beverage ("F&B") is a very broad vertical within the Consumer & Retail sector, encompassing food retail giants like Walmart ("WMT"), multinational conglomerates like PepsiCo ("PEP"), and food processing companies like Archer-Daniels-Midland ("ADM"). From the initial cultivation of ingredients, to the processing and distribution of products, and then finally the formation of brands associated with different types of food & beverages, the vertical covers all parts of the industry. The largest players in the F&B vertical like Nestlé ("NESN") often have many subsidiaries in each of these distinct segments.

Automation and Efficiency Improvements:

Companies are heavily investing in automation and robotics to overcome labour shortages and improve operational efficiency. For example, Hormel Foods and Tyson Foods have both ramped up their investments in automation to ensure they can maintain production levels with fewer workers. This trend is part of a broader industry shift after the pandemic towards increasing productivity while reducing reliance on manual labour. Rising labour costs have been a major contributor to margin compression, and companies are taking steps to offset such costs.

Expansion of Production Capacity:

With supply chain issues from previous years largely resolved, companies are now focusing on expanding their production capabilities to meet growing consumer demand. Coca-Cola, for instance, is investing $650m in a new production facility for its Fairlife milk brand, reflecting the rising demand for specialised dairy products. Similarly, Grupo Bimbo and Barilla are making significant investments to increase their production capacity globally.

Sustainability and Environmental Impact:

Sustainability remains a key focus, with substantial investments in renewable energy and sustainable agricultural practices. PepsiCo is investing $216m over the next decade to promote regenerative agriculture across its North American farmland, while Danone is committing over $2bn to a climate acceleration plan that emphasises regenerative farming as a central component. These investments are driven by both regulatory pressures and consumer demand for environmentally responsible products.

Health and Wellness:

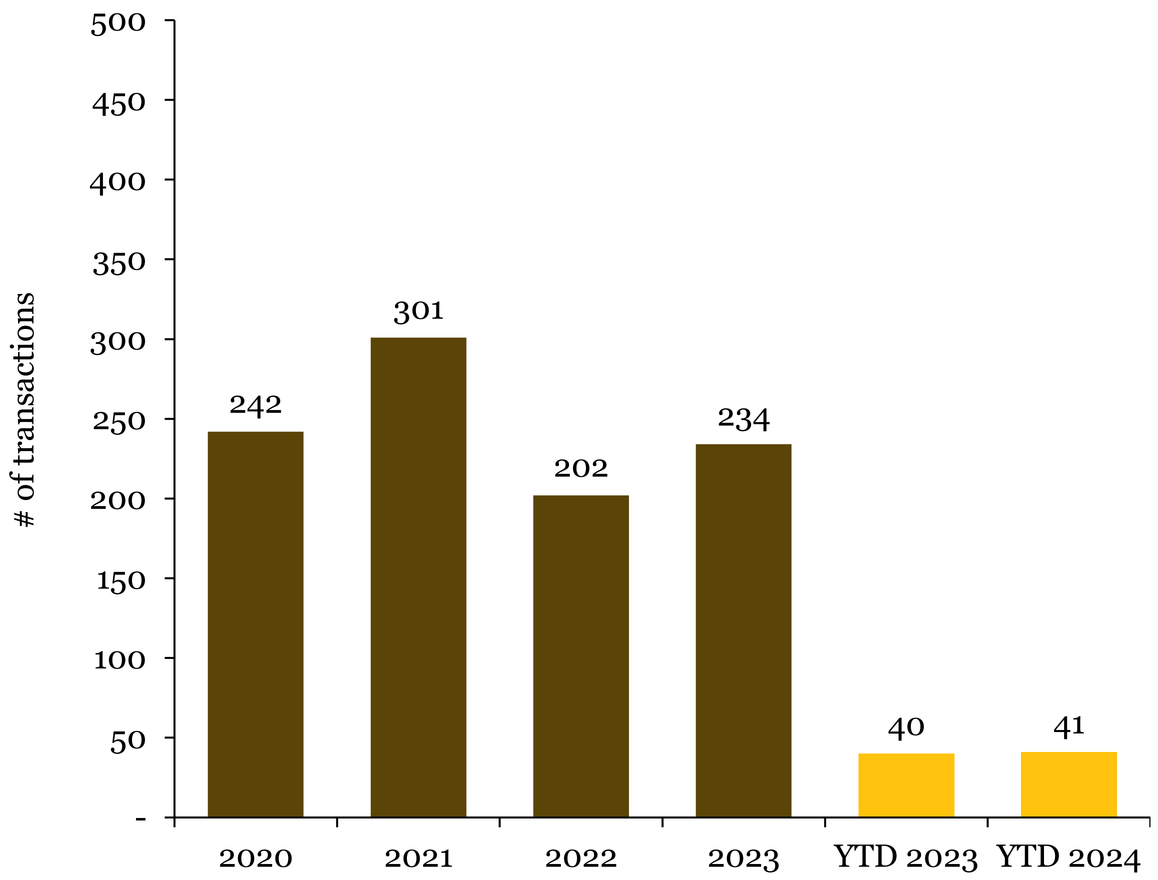
There is also a strong emphasis on product innovation to cater to the growing consumer demand for healthier, low-calorie, and locally-sourced products. Companies are expanding their product lines to include more health-conscious options, which requires new production lines and facilities. This trend aligns with the increasing consumer preference for transparency and sustainability in their food choices.

Sources: BMO, Finario, FoodProcessing.com, Morgan Stanley

Food & Beverage M&A Trends

M&A transaction multiples in the food sector have remained robust, averaging 12.8x EV/EBITDA from 2021 through today – a slight premium compared to the broader consumer industry which averaged 10.4x EV/EBITDA for the same period

2024 Food M&A Activity Starts Strong



Trends

Middle-Market M&A Dominance:

Despite several large-scale acquisitions taking place in the food sector between 2021-2024, most M&A activity has been among middle-market participants. Sticky customer bases that kept revenues stable has allowed middle-market firms to command M&A pricing in recent quarters. Purchase multiples for middle-market deals in the sector have averaged **1.9x EV/Revenue and 12.8x EV/EBITDA** from 2021 to today. The slight multiple premium compared to the overall industry shows that investors favour food sector investments.

Slowing Food Inflation:

According to the US Department of Agriculture, food inflation is forecasted to decelerate moderately in 2024. The consumer price index ("CPI") for all food products anticipated to **increase 2.9%** by year end. The expected price deceleration will likely prompt acquirers to focus on companies with volume-driven earnings growth, as well as on non "staple" food companies.

Who is Acquiring?

Strategic buyers have continued to control the Food M&A market. Strategics accounted for 65.8% of sector deals in 2023 and have completed 51.2% of the total transactions YTD. Private equity firms remained on the sidelines for much of 2023 as an elevated interest rate environment hindered transaction financing. Despite this, financial acquirers comprise nearly half (48.8%) of food sector deals in YTD.

Sources: BMO, Capstone Partners, FDPP, Grant Thornton, S&P Capital IQ, FactSet, PitchBook

Retail and Apparel
Overview

SORTINO
M&A GROUP

Retail & Apparel – A Challenging Year

Macro and Micro trends affecting spending

Economic challenges impacting consumer behaviour

Inflationary Environment

According to a report by McKinsey & Company, the inflationary environment reduced purchasing volumes in about 90% of consumer goods categories, causing investors to shift from thinking about ’top-line’ growth to ’bottom-line’ growth. In other words, retailers struggled to keep costs down, with employee wages, rent costs and other operating costs weighing down on margins.

Weakening Luxury Demand

The luxury market has been in the spotlight with an expected growth of 8-10% coming out of 2023, reaching $1.65 trillion globally. This growth is expected to slow to 4% as economic uncertainties are impacting the market, however opportunities have been rife for businesses to reach more customers through consolidation and achieve synergies. Kering completing the acquisition of House Creed, a fragrance company, in hopes of growing its Kering “Beaute” division.

Shifting Consumer Spending Patterns

Polarised Spending

Widening societal divide has been accelerated by the pandemic and cost-of-living crisis across debt, income and savings. Financial burdens are engulfing more households as interest rates increase, impacting around four million mortgage holders in 2023, with two million on fixed rates coming to the end of their term - which could see a £8.3bn jump in repayments. Spending across retail is expected to become increasingly polarised throughout 2023 as the effects of Covid-19 and the cost-of-living crisis impacts households unevenly.

Elevated Interest Rates

2023 posed challenges as inflation and higher interest rates suppressed operating margins of retail businesses, increased financial costs for businesses, and consumers were impacted by household budget concerns.

Sources: McKinsey, Capstone Partners

Retail & Apparel: Trends influencing the sector

Expect strategic activity to tackle changing consumer expectations and grow sales

Luxury market is not so strong anymore…

The luxury market has been in the spotlight with an expected growth of 8-10% coming out of 2023, reaching $1.65 trillion globally. This growth is expected to slow to 4% as economic uncertainties are impacting the market, however opportunities have been rife for businesses to reach more customers through consolidation and achieve synergies. Kering completing the acquisition of House Creed, a fragrance company, in hopes of growing its Kering Beaute division. The most notable transaction has been Tapestry's acquisition of Capri to bring the six brands together and estimated to generate pro-forma revenue of $12 billion; both businesses have a focus on luxury accessories, footwear and handbags. However, regulatory concerns with the FTC blocking the transaction showcases the regulatory environment changing which could impact not only the Tapestry-Capri but future deals within the consumer sector

Strategic activity leads the way

Strategic buyers are leading M&A activity (Capstone Partners): Strategic buyers have comprised c.80% of deal activity - Recently, JD Sports Fashion announced the acquisition of Hibbet for $1.4bn, equivalent to 5.0x EV/EBITDA. However, Capstone expects capital deployment from sponsors as lending conditions are expected to improve.

For example, consumer appetite for branded jewellery has led to opportunities for large retailers to acquire middle-market players. Acquisition of these firms will diversify portfolio offerings; LVMH acquired Chrome Hearts, a niche luxury jewellery brand that targets the younger demographic.

Tackling expansion into new markets

Other headwinds, including changing consumer expectations, increasing omnichannel capabilities and adhering to ESG practices have intensified competition within space. This has caused retail businesses to go through M&A to achieve cost synergies and margin expansion, as well as tapping into new and unexplored markets, whether it is expanding geographical reach into China or niche markets such as athleisure. M&S acquiring The Sports Edit showcases a desire to tap into the sportswear and athleisure market that has been growing since the pandemic. Additionally, M&S has been trying to adjust to changing consumer tastes such as offering a variety of brands on one website, which has also been emulated by Next through the acquisition of FatFace to its collection to boost their brand.

Retail & Apparel: Trends influencing the sector

Generative AI capabilities and targeting Gen Z demand

The macroeconomy influencing spending in 2024:

US 🇺🇸: Fed Reserve is likely to cut interest rates, and the economy is expected to grow more modestly than in 2023. Consumer spending is likely to be fueled by rising incomes and employment

Europe 🇪🇺: Despite the sharp decline in inflation in 2024 and a slowdown in economic output with Germany already being in a recession, the ECB is intent on retaining a tight monetary policy to weaken the tight labour market. Overall, the Eurozone is likely to experience modest growth, but many factors such as tight fiscal policy and weak credit market conditions will impact the spending power of consumers

China 🇨🇳: The central bank has tried to ease monetary policy, but it remains ineffective with observers suggesting a liquidity trap is occurring. In addition, declining working age population and internal migration being stopped (which drove productivity gains as workers shifted from farms to factories) means that average annual growth would be for most of the remainder of the decade, modest. For the global economy, this means weaker exports from China, weaker demand for commodities and help suppress inflationary pressures.

Brand Loyalty Issue:

Customer facing industries rely heavily on consumer perception and marketing strategies to stand out against competition. In 2024, brand loyalty is at an all-time low, especially among the younger demographic, according to Kroll's research. In developed markets, over a third of consumers have tried different brands in search of better value for money and discounts over the last 3 months. This trend overlaps with the overarching increase in cost of living globally. Retailers and consumer goods producers are faced with an interesting challenge of how to retain customers with economic incentives, while keeping sustainable profit margins.

Gen Z: The largest demographic, accounting for 25% of the population has a purchasing power of $360bn. Gen Z purchases the most clothing and shoes online and the second most offline, only behind groceries – retail businesses expand omnichannel capabilities, they are likely to capture this demand

Future of Generative AI: Generative AI could add between $150-$275bn to the apparel market, as the technology can be implemented across supply chains making companies more efficient. In marketing, platforms can make use of consumer data and target customers more effectively

Hospitality
Overview

Hospitality Growth in New Projects

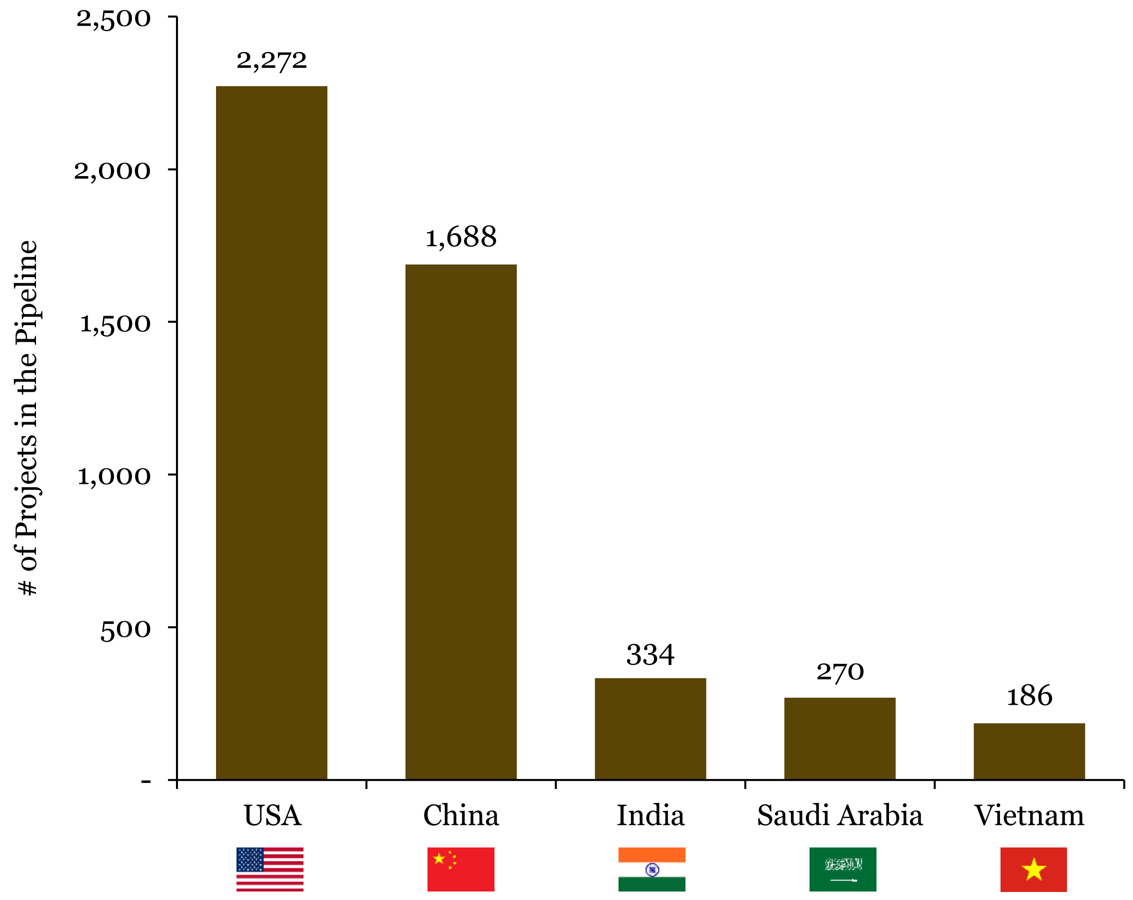
Since recovering from COVID, international tourism reached a $1 trillion milestone in 2022, with the number of international tourists doubling in 2023. Consequently, the hospitality market is projected to grow to $6.2 trillion by 2028, representing a CAGR of 5.5%

New Projects on the Rise

As of June 2024, the USA and China lead in new hotel construction, with 2,272 and 1,688 hotels, respectively. Vietnam ranks 5th in new hotel construction, highlighting growth in the Asia-Pacific region. Although the US has more hotels in development, China's projects are larger-scale, surpassing the US by 70,000 hotel rooms. This trend indicates a preference for hotels with higher occupancy in Asia.

The forecasted growth is expected to be driven by wellness tourism, sustainability, and community collaboration. This growth assumes stability in both developing and developed countries, with a significant portion coming from regions like Southeast Asia and South America. While Europe and the USA are also expected to grow, developing regions are poised to outpace them, provided regional stability remains consistent. However, a potential bottleneck for developing regions could be the sustained development of infrastructure alongside private projects, which is crucial for ensuring safe and convenient transport for increased tourism.

Countries with the most ongoing Hospitality Projects

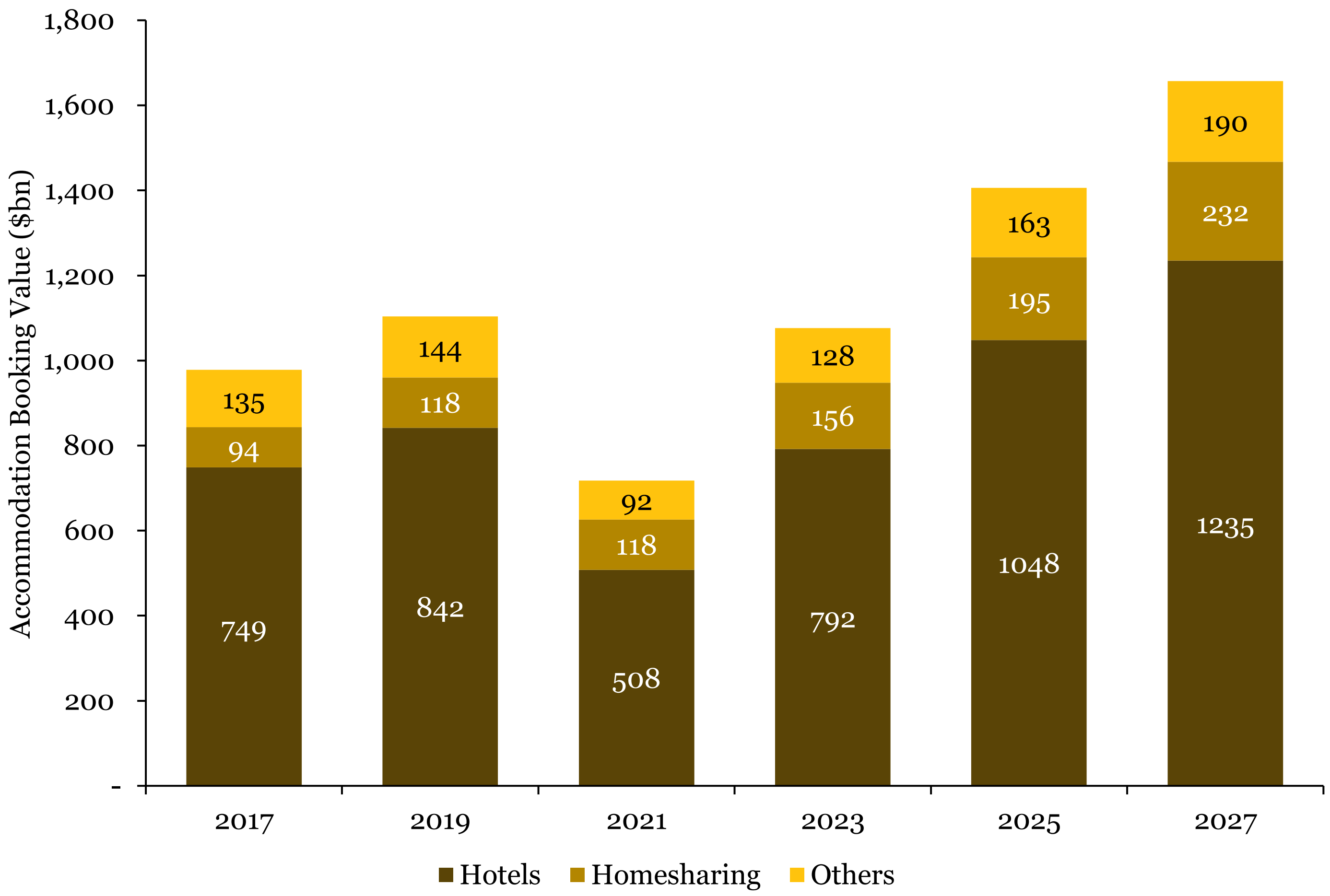


Sources: Statistica, EHL

Hospitality Projections and Competition

Inflation continues to influence consumer behavior, increasing the trend of "insperience," where people stay home more but spend more on outings or travel. This trend, ongoing since COVID, has driven higher demand for home-catered luxury goods like décor, candles, and furniture

Value of Worldwide Hospitality Markets



Home-sharing services such as Airbnb and Booking.com are expected to be strong competitors to large hotel chains, with similar growth projections. However, their competitiveness is limited by factors such as the convenience, luxury, and extensive facilities offered by hotel groups. Large hotel chains benefit from brand reputation, consistency, and consumer trust, allowing them to invest in innovations that set them apart. For example, Mandarin Oriental's AI-driven sustainability initiative optimises food supply based on daily waste, highlighting the growing emphasis on sustainability in the hotel industry. Additionally, the rapid expansion of large hospitality chains is fueled by mergers and acquisitions of independent businesses, which struggle to compete with the economies of scale enjoyed by chains like Hyatt, Hilton, and Marriott.

Hospitality Trends

AI, Energy Management, and ESG are becoming an increasing focus of hotel services in 2023

Overview

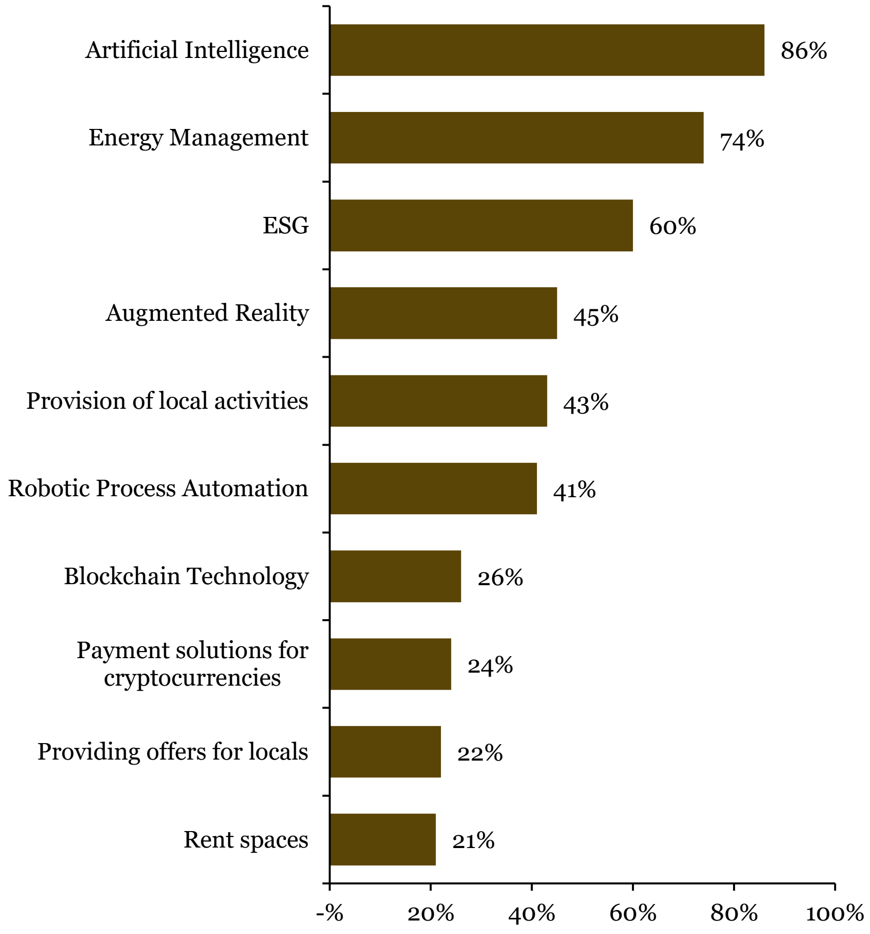
- **Sustainability:** Concerns for environmental matters are ever increasing amongst consumers whilst governments are simultaneously demanding hotel operators demonstrate ESG credentials. For example, Singapore is now requiring mandatory climate reporting.

- **Personalised experiences and services:** Outside of just hotels, large hospitality firms now must cater specialised offerings such as the four seasons offering yacht charters, other firms offering members clubs and golf courses and the mandarin oriental selling luxury apartments.

- **Workforce empowerment:** A part of what completes luxury hospitality experiences are staff and their skillsets, making well trained staff a rare commodity. This has led to hotel operators offering training programmes, accommodation and integrating the staff as a closer part to the core of the business.

- **Culinary experiences:** The increasing desire to experience rather than simply consume has led to more hotels being required to offer dining destinations in which the restaurant is a part of the experience rather than an addition to the hotel.

Hotel service areas with the most innovation (2023)



Recent M&A
Activity

M&A Activity (I/II)

Largest Consumer & Retail M&A deals of 2024

Packaged Foods

MARS
Kellanova

$36.0bn

In the largest M&A deal of the year to date, and the largest in the packaged food industry in over a decade, Mars announced a $36 billion acquisition of Kellanova. Mars purchased all outstanding shares at $83.50 per share at a 33% premium of Kellanova's last closing price and implying an adjusted EBITDA multiple of 16.4x. This deal will consolidate multiple billion dollar brands, such as Pringles and Cheez-It, under Mars' control. The pro-forma company will leverage Kellanova's deep supply chains and market presence in Latin America and Africa, as well as allowing the Kellanova brands access to the Chinese market.

Paper & Packaging

Smurfit Kappa
WestRock

$11.0bn

July 2024 saw the newly formed "**Smurfit Westrock**" officially listed in the NYSE, as previous Irish packager Smurfit Kappa announced a merger with US packaging company Westrock. Both firms were Europe's largest and the USA's second largest paper and packaging producers and considering that the two companies had practically no operational overlap, the pro-forma entity proves to be a formidable force in the paper and packaging space. The deal was agreed at **$11 billion**, creating a combined firm with EBITDA of **$5.5 billion** and combined adjusted revenue of **$34 billion**. Smurfit Westrock has said they will prioritise **renewable and recyclable packaging**.

Luxury goods

tapestry
CAPRI

$8.5bn

The merger of Tapestry and Capri Holdings has been an ongoing process since August 2023, yet one that could have theoretically shaken up the dominance in the luxury goods market by LVMH, Hermes and Kering. The owners of Michael Kors and Coach had announced an **$8.5 billion** deal, yet was **blocked by the FTC** in May 2024, citing anticompetitive behaviour that would result from this. Capri's financials as of its recent numbers has declined, which may go to further change the scope of the deal. The companies are set to hold a hearing in September, which will hold significant implications for the luxury goods space.

M&A Activity (II/II)

Largest Consumer & Retail M&A deals of 2024

Building Technologies

Honeywell
Carrier

$5.0bn

Honeywell is acquiring Carrier's global access solutions business for **$5.0bn** in cash to enhance its building automation and security capabilities. The acquisition aligns with Honeywell's focus on automation, digitalisation, and safety, adding brands like LenelS2, Onity, and Supra to its portfolio. Valued at an EV/EBITDA multiple of **c. 13x,** including tax benefits and **$50m in anticipated synergies**, the deal is expected to be cash-EPS accretive in the first full year. The transaction, set to close by the third quarter of 2024, is projected to deliver a double-digit cash return on investment by the fifth year.

Paper & Packaging

International Paper
DS Smith

$9.9bn

International Paper has agreed to acquire DS Smith, a UK-based packaging company, for approximately **$9.9bn** in an all-share transaction. This strategic acquisition will create a global leader in sustainable packaging, combining DS Smith's strong European presence with IP's extensive North American operations. The deal is expected to generate **$514m in annual synergies** and result in pro forma **ownership of 66.3% for IP shareholders and 33.7% for DS Smith shareholders**. The transaction is expected to close by Q4 2024.

Beverages

Carlsberg
BRITVIC

$4.4bn

Carlsberg has agreed to acquire Britvic, a leading British soft drinks producer, for **$4.4bn** in cash. This strategic acquisition allows Carlsberg to enhance its portfolio by combining Britvic's high-quality soft drinks with its own extensive beer offerings, strengthening its market position in the UK and Western Europe. The deal is expected to create significant synergies, including **$130m in annual cost savings** through improved procurement, production, and distribution efficiencies. Additionally, the acquisition reinforces Carlsberg's global partnership with PepsiCo and aligns with its growth strategy following its exit from Russia.

Sector
Outlook

2024 Consumer & Retail Sector Macroeconomic Outlook

Sales Growth Performance so far….

In 2024, sales growth in the consumer and retail sectors is expected to moderate compared to the rapid post-pandemic recovery seen in 2021 and 2022. According to the National Retail Federation (NRF), retail sales are projected to grow by about 4-6% in 2024, a slowdown from the previous year's growth rate of 7.5%. This deceleration is partly due to the cooling effect of high inflation and rising costs of living, which are curbing consumer spending power

E-Commerce Resilience: Despite the overall moderation, e-commerce continues to outperform brick-and-mortar sales, with online sales expected to grow by 10-12% in 2024. This trend is supported by the ongoing digital transformation and changing consumer preferences towards online shopping.

Consumer spending is particularly strained in Q2 2024, with real retail sales dropping by 1.2% annualized from Q1. This decline reflects a pullback in consumer demand, especially for non-essential goods, as inflation remains stubbornly high and consumers face rising costs of living, including higher interest rates on loans and credit cards, slower wage growth and depleted excess savings. This decline experienced globally in China, the Eurozone and the United States.

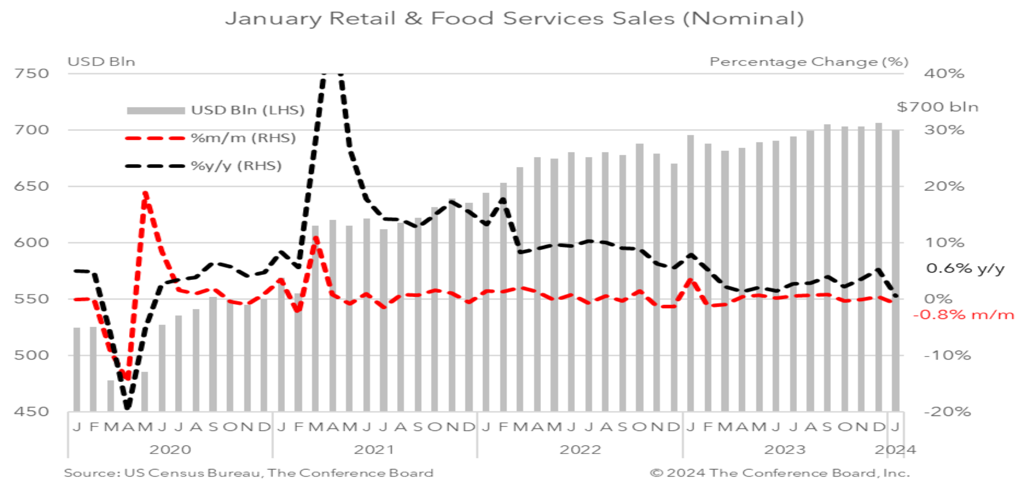
The lagged effect of interest rates are starting to be felt, making it much more costly to buy big-ticket items such as houses or a car as consumer fully burnt through their pandemic-era savings around March. Unemployment rate has also steadily crept higher in recent moneys. In July it climbed to 4.3 %, according to US government data released on Friday.

Inflation remains a critical challenge for the retail sector in 2024, with the annual rate expected to hover between **3.5% and 4.5%**. Although down from the peaks of 2022, this level of inflation still places significant upward pressure on costs for goods, labor, and transportation. Retailers are struggling to balance passing these costs onto consumers without adversely affecting demand. This balancing act has led to thin margins, particularly for price-sensitive segments like grocery and apparel. This persistent inflation is really weighing on consumers and weighing on their wallets.

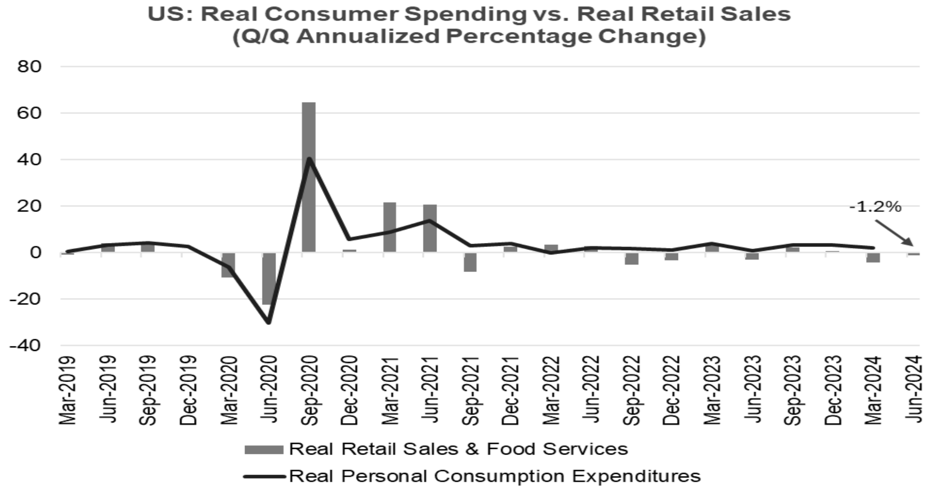
Interest rates remain a focal point for the retail sector in 2024. After a series of rate hikes through 2023, the Federal Reserve is expected to implement rate cuts towards the end of 2024, potentially reducing the federal funds rate by **50 to 75 basis points**. These anticipated cuts are likely to provide some relief to the retail sector by lowering the cost of borrowing for both consumers and businesses.

For consumers, lower interest rates could ease the financial burden of debt, particularly on mortgages and credit cards, potentially freeing up disposable income for retail spending. For retailers, reduced financing costs could support capital investments in inventory, store expansions, and technological upgrades.

Initial signals of pullback in spending activity of Jan 2024



Continued reduction in consumer demand by 1.2% from Q1



2024 Consumer & Retail M&A Landscape:

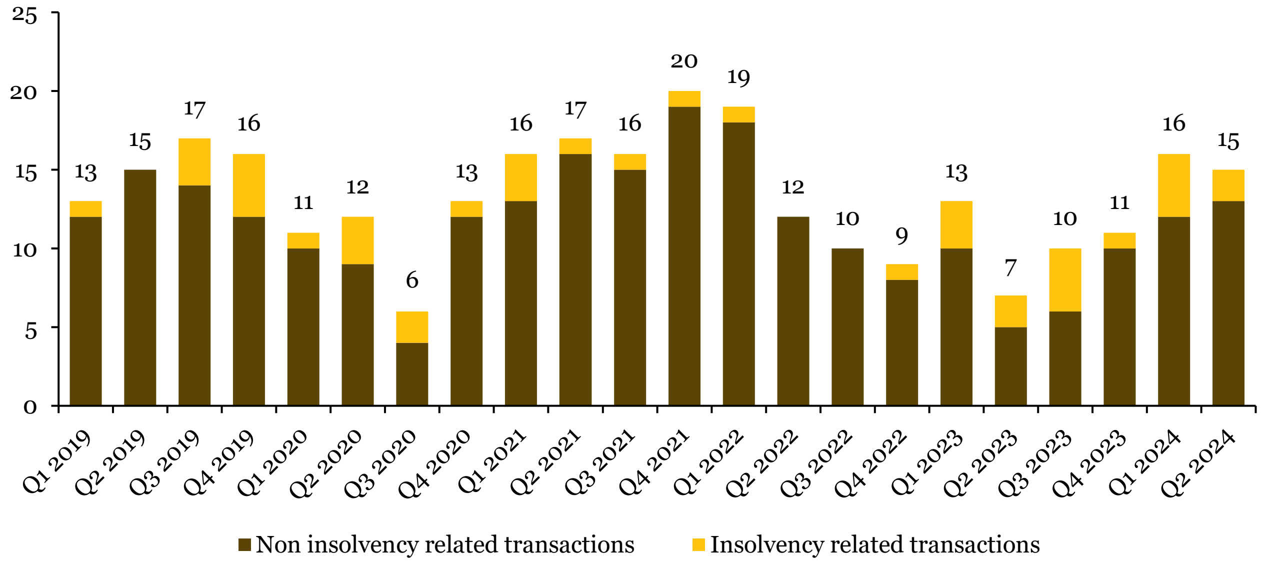
Variety of M&A Transaction Types Anticipated for the 2H24

1. **Portfolio Optimisation -** *Spin-Offs, Carve-Outs, and Divestitures:*

    Increased Activity: Companies are increasingly focusing on their core businesses and divesting non-core or underperforming assets. This trend has been particularly strong in 2024, with an estimated 20% increase in spin-offs and carve-outs compared to 2023. For instance, large FMCG companies are expected to divest businesses that do not align with their long-term strategic goals, such as those involving unhealthy or environmentally unsustainable products (e.g., gum, confectionery, and carbonated drinks).

    Key Example: Unilever's planned separation of its ice cream business is a prime example of this trend, allowing the company to focus more on health-oriented product lines.

1H2024 vs Historical Rescue Deal Highlights (Volume):



2. **Consolidation and Adjacent Acquisitions** – *Building Efficiency and Market Share:*

    Large-Scale Mergers: Consolidation is a significant driver in the retail sector, with companies merging to achieve economies of scale, diversify into new markets, and expand into adjacent categories. This trend is expected to continue throughout 2024, with consolidation activities projected to grow by 15% year-over-year.

    Adjacent Acquisitions: Companies are also pursuing acquisitions in adjacent categories to enhance their product offerings and strengthen their market position. This is particularly prevalent in sectors like consumer electronics and beauty, where companies seek to leverage synergies across different product lines.

    Key Example: The merger between Brazil's fashion retail chains Arezzo&Co and Grupo Soma exemplifies this trend, aimed at creating a larger, more resilient entity capable of capturing a greater share of the market.

3. **Distressed M&A** – *Opportunities Amidst Retail Insolvencies:*

    Rising Insolvencies: Many companies, burdened by high operational costs, long-term lease obligations and COVID-19's impact, are being acquired at lower valuations by financially stable firms.

    Key Example: The restructuring of The Body Shop, which faced challenges due to shifting consumer tastes and growth of e-commerce

Analyst
Projections

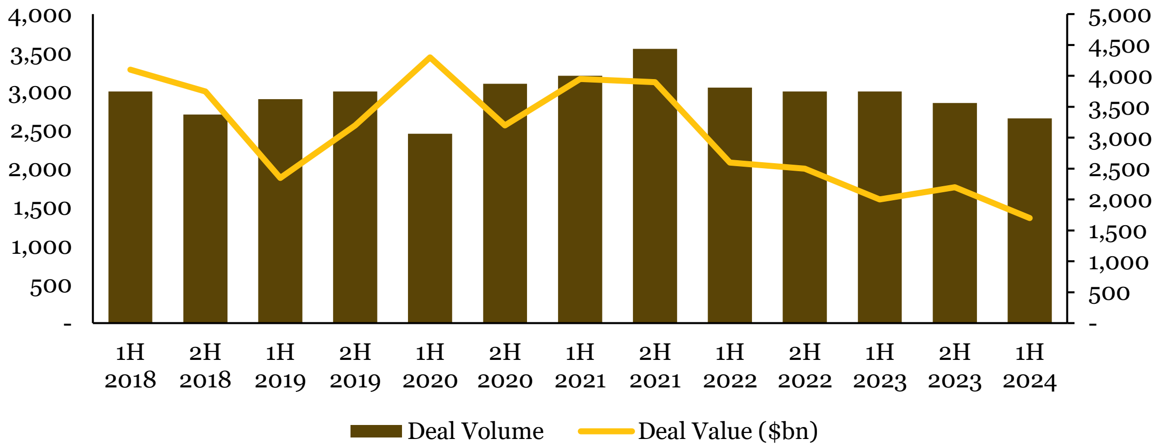
2024 Consumer & Retail M&A Landscape:

Market Performance in 1H 2024 and Signs of Recovery Ahead

Market Commentary – 1H24

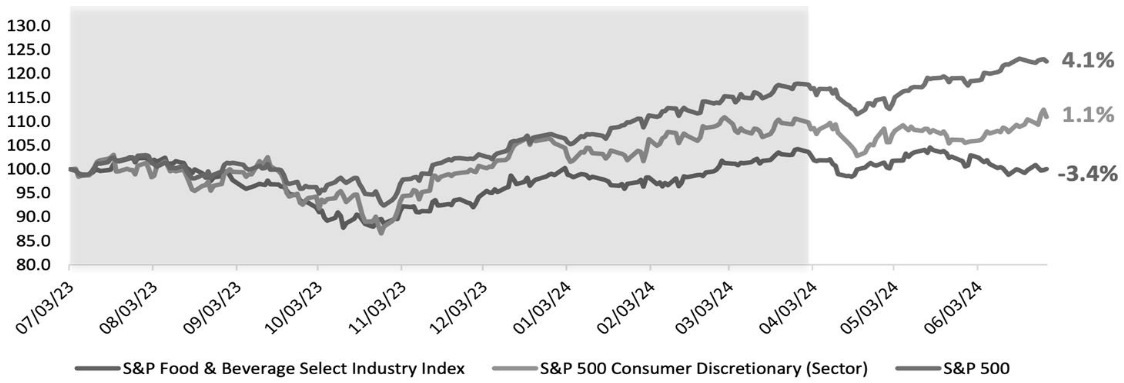
- In 1H24, the continued decline in the consumer & retail sector's M&A activity reflected significant challenges due to ongoing macroeconomic pressures and weak market sentiment - *high interest rates, geopolitical tensions, rising labor costs and lingering supply chain issues*.
- The global deal volume across the C&R sector for 1H24 contracted 22% YoY, with EMEA region leading with a -25% decline, followed by Americas contracting at -22% and APAC by -18%.
- The retail sub sector experienced the most significant fall in deal volume, shrinking by 6% with a particularly sharp 56% drop in eRetail (internet and catalogue retailing) transactions. This decline is largely attributed to perceived mismatches between valuations and profitability.
- Valuation discrepancies seems to be a problem arising from growing mismatch between buyer and seller expectations as there have been difficulty justifying high multiples in a market where profitability remains uncertain.

Dealmakers stayed firmly on the sidelines during H1 2024



Q2 Public Markets Index Performances

- **S&P Food & Beverage Select Industry Index:** Decreased by 3.4%
- **S&P 500 Consumer Discretionary Index:** Increased modestly by 1.1%
- **S&P 500 Index:** Outperformed both, with an increase of 4.1%



Market Commentary – 2H24

- Following interest rate cuts by the ECB in July and anticipated reductions by the Fed in September, financing conditions are becoming more favourable.
- Deals would be more attractive, leading to increased investor confidence and expected higher deal activity in the sector by about 15%.
- The easing of these financial pressures is expected to normalize company valuations, which had been depressed by the challenging economic environment earlier in the year. Projections for EV/EBITDA multiples to stabilise around 8x by the end of 2024.
- Sector-specific growth to be observed; with health and wellness (>+20%) , along with luxury goods (+10%), expected to be key growth sectors in 2H24, driving significant M&A activity.
- Private equity M&A activity is expected to ramp up significantly due to mounting pressure to deploy capital, with firms currently sitting on nearly USD 2.5 trillion in dry powder. After a relatively quiet 18-20 months, this substantial capital reserve is now driving urgency among private equity players to re-enter the market and pursue new opportunities. PE-backed deals are expected to account for around 30% of total C&R M&A activity in 2H24.

Emerging Trends and Key Themes for 2H24

Digitalisation and innovation continue to lead trends in the sector

Health and Wellbeing

The health and wellness sector is set to be a major focus for M&A activity in the C&R space. The global wellness market, valued at over USD $4.4 trillion in 2023, is projected to grow at a CAGR of 5.9% from 2024 to 2028, driven by rising consumer awareness and demand for health, fitness, and well-being products[1].

Shift Toward Preventive Health: There is a growing consumer emphasis on preventive health, including nutrition, supplements, and fitness. Companies are actively seeking to acquire brands and technologies that meet this demand. The 2H24 is expected to see increased activity in the vitamin, minerals, and supplements (VMS) sector, as well as broader consumer health markets.

Digital Health and Technology Integration: Companies are increasingly targeting digital health platforms offering personalised wellness solutions, such as fitness tracking, mental health apps, and telehealth services. These acquisitions are expected to rise by 12% in 2H24.

Notable Example: The Simply Good Foods Company announced plans to acquire the protein shake brand *Only What You Need* for $280m

Packaging

In 2024 so far, the packaging sector has seen a 15% increase in deal volume compared to 2023, driven by the stringent environmental standards and growing consumer demand for sustainable products.

Valuation Multiples: The sector's EV/EBITDA deal multiples averaged 10.5x in 1H24, reflecting strong investor confidence. This is slightly above the industry average, indicating a premium on companies offering sustainable packaging solutions.

Sustainability and ESG Pressures: ESG concerns are driving demand for eco-friendly packaging technologies, making companies specialising in recyclable, biodegradable materials prime acquisition targets as larger firms seek to align with consumer expectations and regulatory requirements.

Consumer Preference Shift: With nearly 60% of consumers willing to pay more for sustainable packaging[2], companies are increasingly investing in or acquiring firms that align with this demand.

Retail

The retail sector faced significant challenges in 2023, exacerbated by the lingering effects of COVID-19, leading to distressed valuations and M&A opportunities. In 1H24, retail M&A deal volume increased by 8% year-over-year, with expectations of a 10-12% rise in 2H24 as more retailers seek financial relief through strategic acquisitions.

Valuation Multiples: Distressed retail assets are trading at EV/EBITDA multiples of 5-6x, compared to 8-9x for healthier companies, reflecting the financial strain on the sector and opportunities for acquirers to enter at discounted valuations.

Rising Costs and Financial Pressures: Retailers are struggling with rising labour and rental costs, long-term lease obligations, high severance costs, and lingering COVID-19-related tax debts. These pressures have squeezed margins and burdened them with significant liabilities, making them attractive acquisition targets. Such situations often lead to distressed sales, where acquirers can negotiate deals that include debt restructuring as part of the strategy.

Sources: PwC, Pitchbook, [1] Grand View Research, [2] Mckinsey