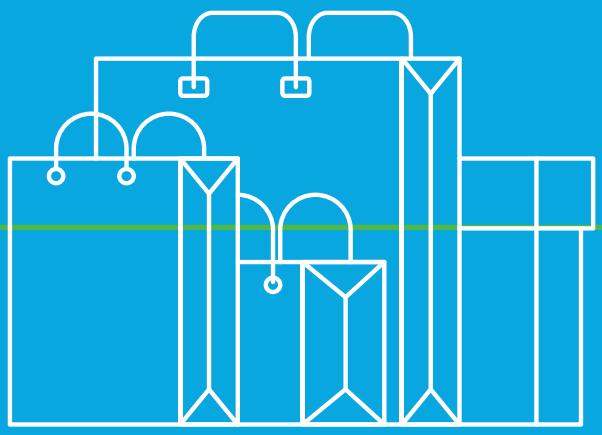
Q4 2017

RSM QUARTERLY SPOTLIGHT

CONSUMER PRODUCTS



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Data powered by PitchBook

RSM

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"Our clients need to understand how CP companies are differentiating themselves and managing their omnichannel efforts in this environment."

Alex Monahan,
Director, Transaction Advisory Services

BIG PICTURE

Key findings

- The goods that retailers are selling need to be touched and experienced during the customer's visit. Those are going to be the products that win out
- Large retailers continue to struggle as consumer choice continues to migrate online, despite a successful year overall. Black Friday 2017 saw record e-commerce sales numbers, a trend that is only expected to continue
- Several consumer metrics are showing signs of health, including upswings in discretionary income and disposable income. There is new uncertainty, however, with client-related entertainment and meal spending, which were affected by recent tax legislation
- The CP dealmaking environment was very competitive overall in 2017, reflecting high levels of dry powder and fewer quality assets coming to market. The competitive environment helped keep volume down and median deal sizes at historically high levels

SPOTLIGHT

Big boxes shifting too

Holiday spending was very strong last year. Improvements in employment, wages and spending overall have gained steam over the past six months, and a healthy consumer economy presents a good test for CP companies as they pivot from brick-and-mortar to the omnichannel. Big box retailers are shifting online via M&A. Home Depot is purchasing The Company Store, an online retailer that will help Home Depot grow its digital presence; Williams Sonoma is buying startup company Outward, an augmented reality platform that allows in-store customers to imagine what their products will look like in their own home.

Looking ahead

The same trends that defined 2017 are expected to continue into 2018 and beyond. Shoppers are increasingly comfortable purchasing items online, even items that consumers have traditionally bought in-store. CP companies will continue improving their omnichannel efforts, and improving consumer metrics will provide a tailwind to the industry overall. Expect deal activity to remain very competitive, with multiples staying historically high (barring any macroeconomic developments).

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CONSUMER PRODUCTS
TRENDS AND NUMBERS

2017 | Q4

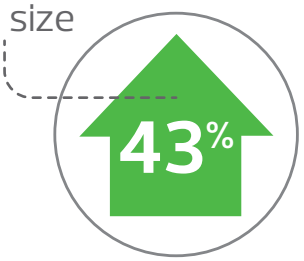
HEIGHTENED COMPETITION AND A LACK OF QUALITY COMPANIES:
Negative impact on deal flow

Valuation multiples on M&A deals hit **8.7x in 2017**, alongside another annual drop in deal volume

PE-sponsored add-on acquisitions:

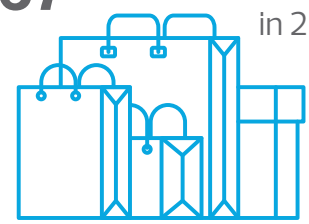
Almost half of all consumer products buyout activity in 2017

YoY growth
in median buyouts deal size

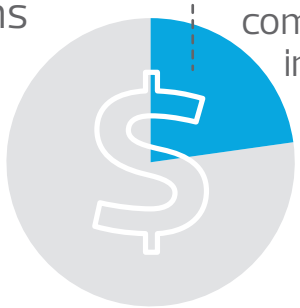


PRIVATE EQUITY AND THE RETAIL SECTOR: Omnichannel management has become critical for companies and their investors

167 PE firms completed retail transactions in 2017



23%



combined value increased over prior year for retail transactions by PE firms

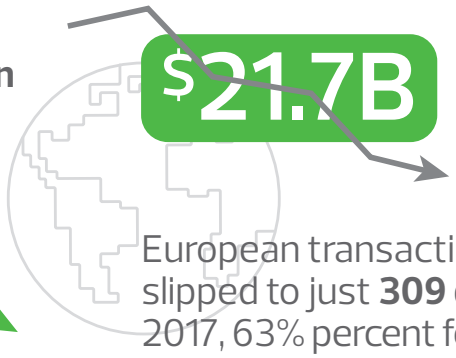
Apparel and accessories:

$7.8B

invested in 2017, a post-crisis low for the vertical

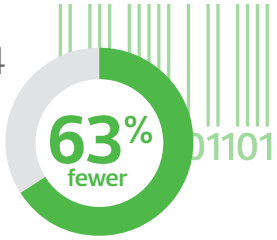
GLOBAL M&A CONSUMER PRODUCT ACTIVITY

Multiyear low of **702 deals**—worth a combined **$33.7 billion** in Q4 2017



Consumer products spending in North America in Q4 2017, **a nosedive from the $102.4 billion spent in Q3 2017**

European transaction volume slipped to just **309 deals** in Q4 2017, 63% percent fewer than the 831 recorded in Q1 2016



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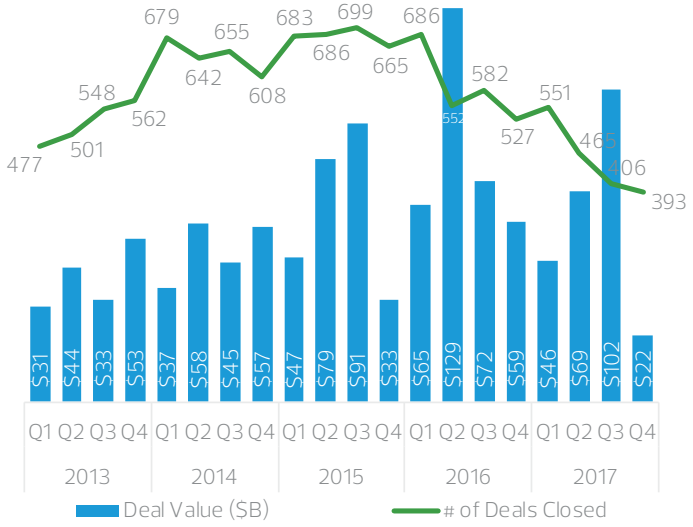
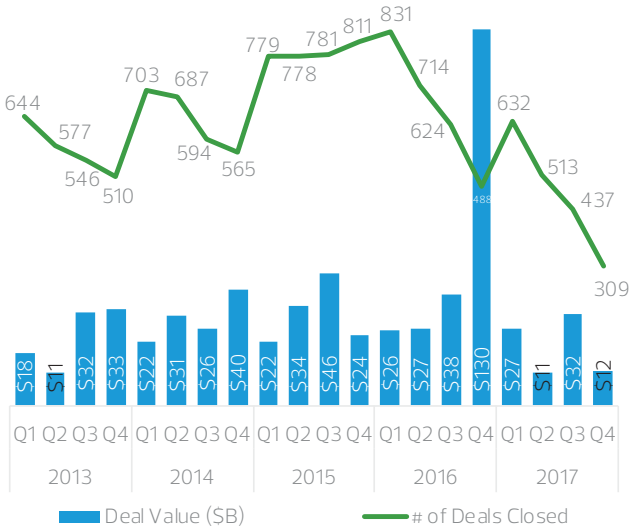
REGIONAL ANALYSIS

M&A flow by quarter in North America



Source: PitchBook

M&A flow by quarter in Europe



Source: PitchBook

2017 activity ends on low note

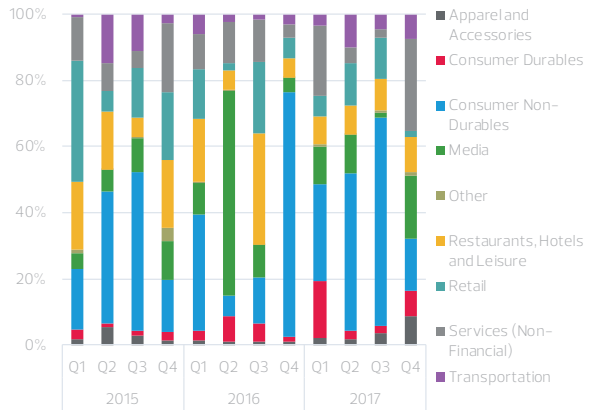
- Across North America and Europe, M&A appetite waned throughout the year and hit a multi-quarter low in the fourth quarter to close out the year
- Just $21.7 billion worth of deals were closed in the fourth quarter in North America, the first sub-$30 billion quarter since at least 2012. Quarterly volume also declined below 400 deals for the first time in years
- The story was the same in Europe, where 309 transactions worth $12.1 billion were finalized in the fourth quarter. Both figures were on the low end compared to recent quarters
- Across both regions, M&A activity was much more subdued than 2016, which saw two of the highest quarters in terms of value in recent years. 2017 value was down 41 percent and volume down 26 percent versus the prior year

SECTOR ANALYSIS

Pockets of strength and weakness

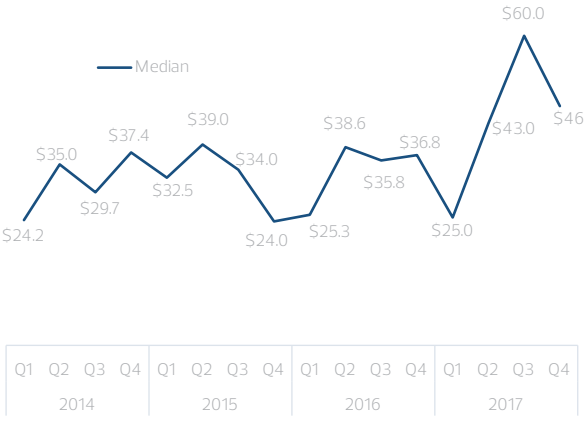
- Consumer non-durables were white-hot in last year's M&A market. Almost $85 billion was spent in the sector in the third quarter, on the heels of a frenzied first half ($38 billion spent in Q2 and $21 billion in the first quarter)
- Transaction sizes have been on the rise recently. The median CP deal size hit $60 million in the third quarter of 2017, up from a $25 million median in the first quarter 2017. Fourth quarter deal sizes declined but remained elevated compared to recent years

M&A transactions ($) by sector



Source: PitchBook

Median M&A deal size ($M)



Source: PitchBook

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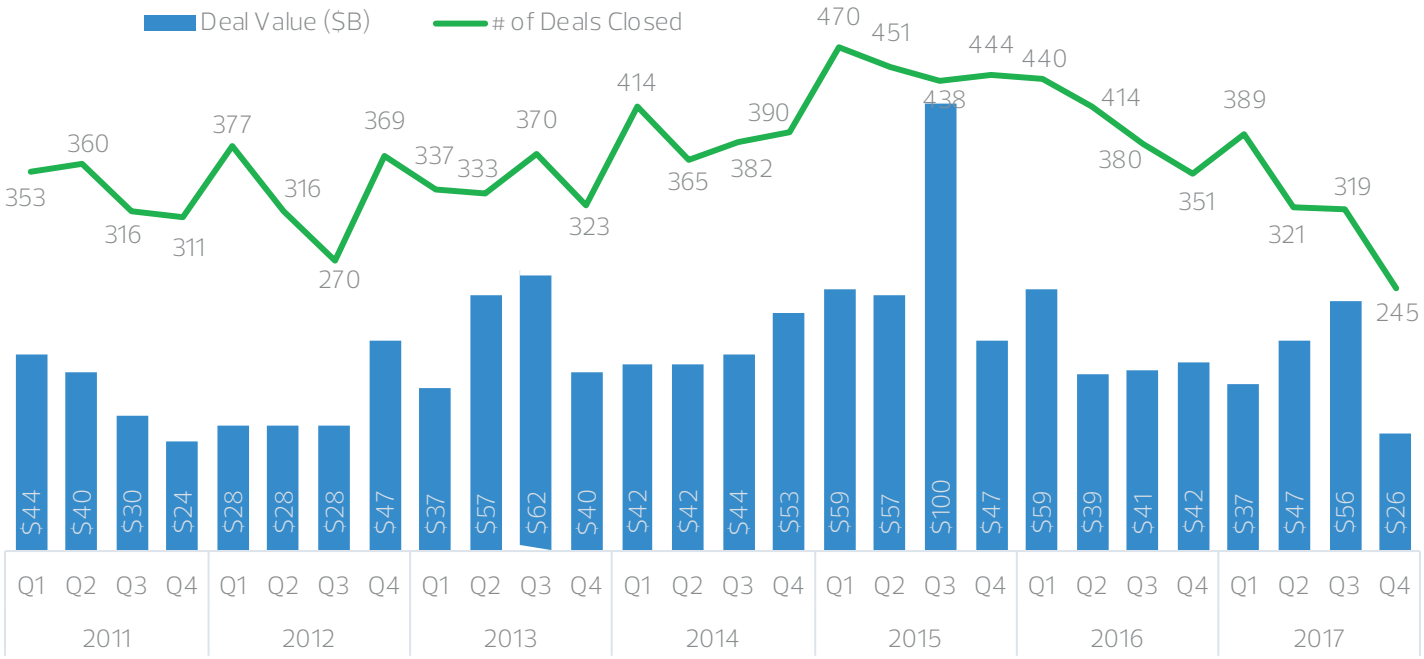
FINANCIAL SPONSOR ANALYSIS

B2C private equity deal flow by quarter

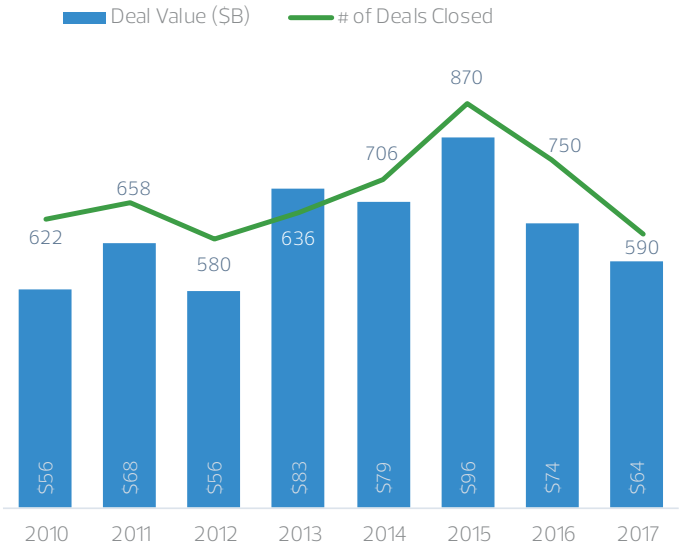


Source: PitchBook. Note: Deal values are extrapolated.

Pricier market dents PE numbers

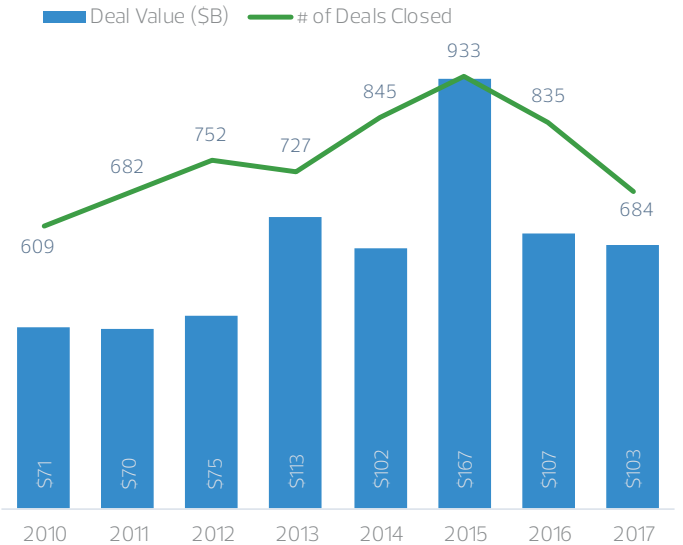
- North America and Europe saw a combined $166 billion in PE transactions in 2017 via 1,274 transactions. Both totals were on the low end versus 2015–2016, but CP remains one of the more active spaces for acquirers
- While 2017 was strong overall, the year ended on a soft note. Coming off a strong third quarter, PE volume fell 23 percent and value fell an even steeper 54 percent. Quarterly activity has been declining since early 2015, a sign of hesitation as investors adjust to changing consumer behavior
- All consumer sub-sectors saw declines in deal volume with the exception of consumer durables, which saw an 8 percent bump in counts. Apparel & accessories and restaurants, hotels & leisure saw the biggest declines, with 31 percent and 34 percent declines, respectively
- Yearly value by sub-sector was a slightly different story. Five

Private equity deal flow in Europe



Source: PitchBook

Private equity deal flow in North America



Source: PitchBook

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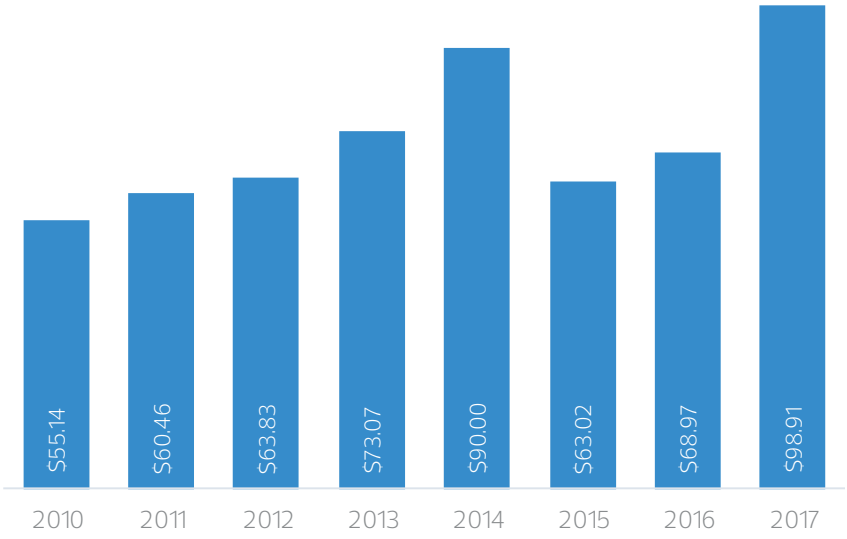
Median buyout transaction size ($B)

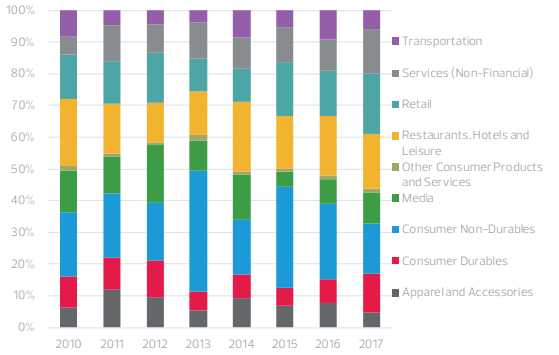


Source: PitchBook

sub-sectors saw declines against 2016 totals, including a 45 percent decrease in apparel & accessories and a 40 percent fall in consumer non-durables. Four sub-sectors saw YoY gains, however, including a 53% increase for consumer durables and a 30 percent increase for non-financial services

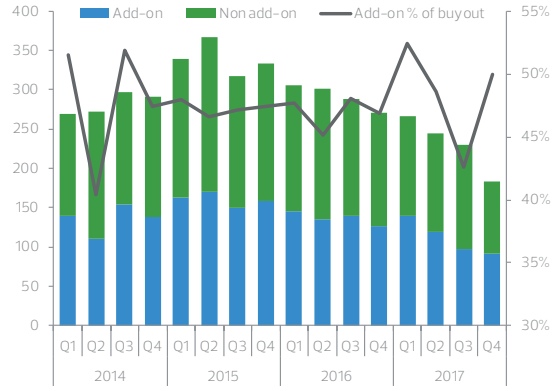
- The investments that were made in 2017 came with much larger check sizes. On a median basis, CP-related buyouts hit $98.9 million last year, above the post-crisis high of $90.0 million set in 2014
- Platform buyouts saw the largest deceleration by deal type, dropping 23 percent year-over-year. Add-ons and growth investments also slowed in the pricey environment but not as much, down 18 percent and 13 percent year-over-year, respectively

B2C private equity deals ($) by sector



Source: PitchBook

Add-on activity



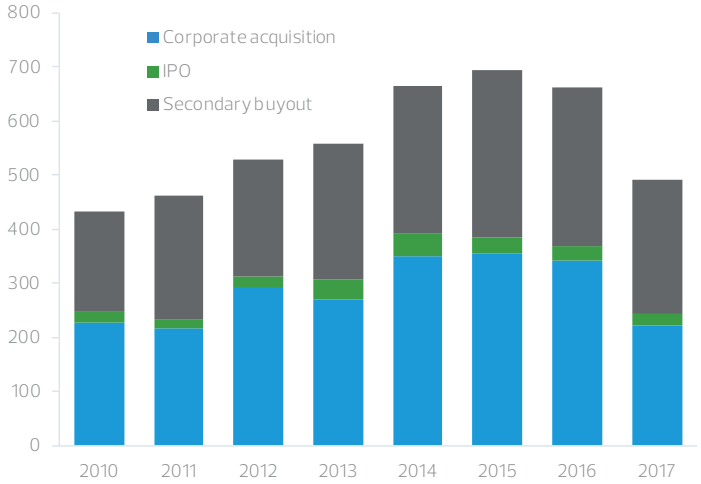
Source: PitchBook

FINANCIAL SPONSOR-BACKED SALES

Exits accelerating downward

- The fourth quarter recorded only 93 PE-backed exits, the first sub-100 exit quarter since Q3 2010
- Yearly exit totals fell again in 2017, dropping 26 percent from the prior year and 29 percent from 2015's high water-mark
- The overall decline in PE-backed sales last year was mostly due to a massive slowly down in corporate acquisitions, which fell 35 percent versus a 16 percent decline in secondary buyouts (SBOs)

B2C private equity exits by year



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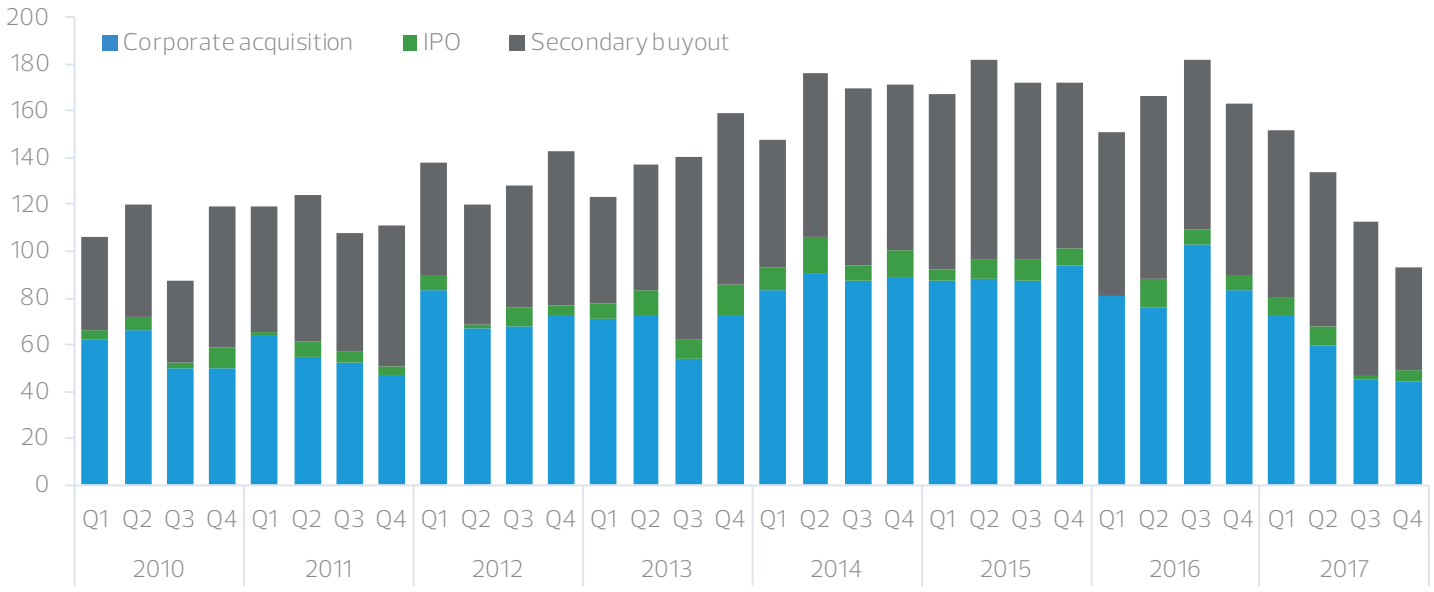
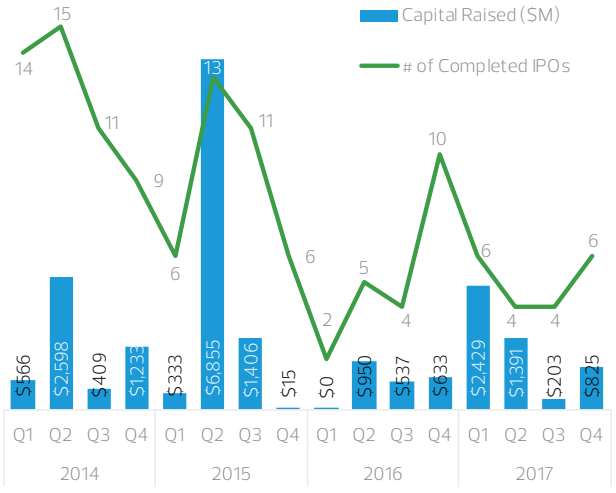
B2C private equity exits by quarter



Source: PitchBook

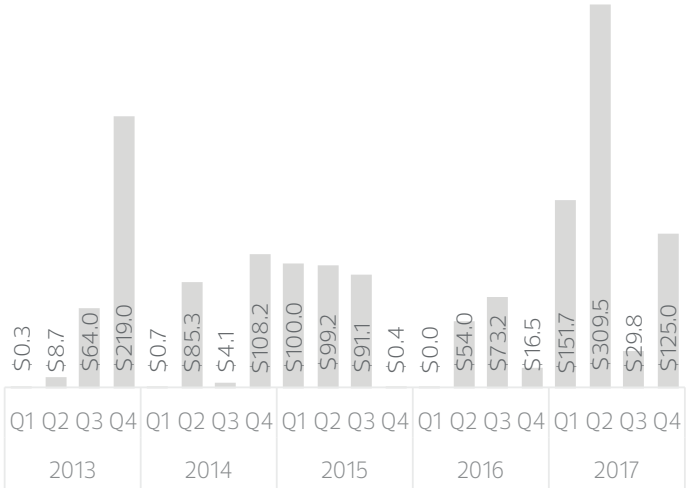
IPO ACTIVITY

U.S. IPOs in the consumer products industry



Source: PitchBook

Median U.S. IPO size ($M)



Source: PitchBook

2017 offers hope for CP listings

- Six initial public offerings (IPOs) were completed in the fourth quarter. Over $825 million was raised altogether, a fourfold increase over third quarter's historically modest $203 million raised. Both the fourth quarter figures were in-line with numbers seen throughout 2017.
- IPO sizes were relatively high in 2017, excepting the third quarter. The fourth quarter's median of $125 median was higher than any quarterly medians in 2016, 2015 or 2014, though it was only the third largest quarterly median in 2017—a promising trend.

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The value of RSM's middle-market leadership

Focusing on the middle market, RSM US provides integrated transaction advisory, tax, assurance and consulting services. Our work with 3,600 middle-market consumer products and food and beverage companies gives us a deep understanding of the key trends impacting the industry. In addition, we have performed due diligence on more than 2,000 deals in the past five years, over 770 of which were consumer products and food and beverage transactions. This in-depth knowledge provides our private equity and strategic buyer clients with industry-specific due diligence considerations.

The following list shows a detailed breakdown of the PitchBook industry codes for the B2C industry.

2. CONSUMER PRODUCTS (B2C)

2.1 Apparel and accessories
2.2 Consumer durables
2.3 Consumer nondurables
2.4 Media
2.5 Restaurants, hotels and leisure
2.6 Retail
2.7 Services (non-financial)
2.8 Transportation
2.9 Other consumer products and services

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