1Q 2019 CONSUMER PRODUCTS SPOTLIGHT
M&A trends and private equity deal activity
"Successful organizations proactively use data at the core of their decision-making process, utilizing data to prevent future losses, optimize systems and increase customer engagement."

Kunal Bhatt, Director, Transaction Advisory Services
Restaurants and retail, considered for several years to represent sectors with little need to innovate to remain competitive, have benefited from sustained interest of financial sponsors looking for innovative approaches to the space. Industry consolidation has resulted in the introduction of new technologies to improve the digital experience for customers. In addition, the appetite of private equity (PE) investors for more exposure to the consumer products (CP) space has coincided over the past several quarters with better inputs sourcing for restaurants along with supply chain improvements. Meanwhile, tax savings have spurred capital expenditure across the enterprise, with additional bonus depreciation under recent reforms supporting upgrades to point-of-sale systems, greater integration of financial systems and improvements to food safety technologies, including those that exploit the benefits of increased visibility brought about by the blockchain. These moves have helped some players in CP to realize the benefits of customer service models that bring the consumer experience to the forefront.
Dealmakers in the CP space have looked to add new capacities, often outside of a platform company’s core competency, with increasing frequency over the past couple of years. Add-on transactions have come with some significant implications for the due diligence process, however, including greater scrutiny of the information technology and operations of a target company as part of the confirmatory and pre-acquisition due diligence process.

Meanwhile, some companies have already started to hire senior level operations professionals in their review of the enterprise. This decision has helped sponsors better understand the capabilities of potential add-on targets and gain greater insights on standardized processes or systems, and it represents a proactive measure that a seller can take to alleviate the pain points of prospective buyers down the line.
Retailers stand to benefit from the advent of 5G wireless technology over the coming year. With improvements to connectivity accruing to the Internet of Things, companies can capitalize on existing network architecture to expand the digital experience for consumers by introducing new services such as personalized digital signage along with virtual and augmented reality experiences in store.

The use of data scientists has grown in the CP space of late, as firms leverage data to improve realtime decisions, prevent future losses, optimize existing systems and sustain customer engagement. But these transitions to the digital experience also represent unprecedented cybersecurity challenges. Although widespread adoption of 5G will allow businesses to benefit from advanced technologies such as video to assist in pattern recognition among shoppers, financials and strategics alike must also proceed with caution during the diligence process to identify the potential security risks of legacy systems.
CONSUMER M&A DEAL FLOW REMAINS SUBDUED IN Q1

Q1 2019 M&A volume fell for a fifth straight quarter, signifying pricing pressures.

North America accounted for an even greater share of all value, comprising roughly 80% of the $147 billion spent in aggregate in the first quarter.

At 239 deals representing $30 billion in combined value, Europe secured its smallest share of overall activity since the start of 2013.

RETAIL'S SHARE OF DEAL FLOW CONTINUES TO FALL

PE players only closed on $28 billion in aggregate deal value across 239 completed transactions.

Capital invested fell to $8.7 billion across 41 completed transactions from $17 billion across 131 deals just a year ago.

Sponsors in the consumer space failed to produce a public debut in the first quarter.

DEAL-MAKING ACTIVITY STILL ROBUST AMONG FINANCIAL SPONSORS

PE buyers utilized add-ons in over 40% of all buyouts for a third straight quarter to expand existing platforms.

Although down slightly from last quarter, the median deal size overall still hit a historically elevated $32.8 billion.

Growth investing volume remains healthy with financial sponsors supporting 141 deals in Q1.
DEAL SIZES REMAIN INFLATED

Median and average deal values have stayed near historic highs, buoyed by recent transactions for prominent brands able to command top dollar from funds sitting on record levels of dry powder. However, steep asset prices have started to weigh on deal flow for some financial sponsors. PE firms invested $29 billion across 239 completed transactions last quarter. That decline in volume represents a dip of 56 percent on Q1 last year, while overall value for this quarter represented just 35 percent of the total for Q3 2018.
MEGA-DEALS FUEL GROWTH IN MEDIA DEAL VALUE

Aggregate deal value in restaurants, hotels and leisure fell by about half in Q1 to $9 billion compared to last year’s total for the same period on the back of a decline in completed transactions over that time of almost two-thirds to just 60 deals. Meanwhile, although commanding roughly the same share of overall deal activity, strategics closed a pair of transactions last quarter that helped the media sector command a record share of value as Disney completed its industry realigning deal for the assets of 21st Century Fox while SiriusXM picked up streaming radio platform Pandora.
FINANCIAL SPONSORS STILL FAVORING ADD-ONS

Overall M&A deal volume in CP reached a multi-quarter low in Q1 representing a dip in activity for North America and Europe of 50 percent. However, aggregate deal value for the same period tells a different story, with dealmakers closing on more in value last quarter on less than half the volume. Financial sponsors continue to favor a buy-and-build approach in this space, with add-on deals representing over 40 percent of all transactions completed for a third consecutive quarter.
Focusing on the middle market, RSM US provides integrated transaction advisory, tax, assurance and consulting services. Our work with 3,600 consumer products companies gives us a deep understanding of the key trends impacting the industry. In addition, we have performed due diligence on more than 2,200 deals in the past five years, nearly 200 of which were consumer products transactions. This in-depth knowledge provides our private equity and strategic buyer clients with industry-specific due diligence considerations.