Q2 2018 CONSUMER PRODUCTS SPOTLIGHT
M&A trends and private equity deal activity
"Many middle-market (MM) companies haven’t been required to collect and remit sales taxes until today, and there will be some pain meeting those requirements in the short-term."

Kunal Bhatt, Director, Transaction Advisory Services
The consumer industry continues to evolve to meet the new requirements of an on-demand economy. With consumer preferences changing at a historically rapid pace, companies are racing to refine their omnichannel strategies, either organically or via acquisition. Given the resources required to organically build new distribution channels, private investors are betting on a future wave of acquisitions for smaller companies that focus exclusively on on-demand services. More than $152 billion was spent on acquisitions related to consumer products (CP) in Q2 2018, the second highest quarterly total since 2013. Moreover, almost $75 billion of private equity (PE) investments have been made through H1, which puts 2018 on pace for another strong year. Expect to see strategics continue diversifying both their product offerings and distribution channels to meet those consumer demands while PE investors continue to back companies that could provide those future acquisition opportunities.
The food-on-demand segment has enjoyed significant growth during recent years, in terms of both market traction and private investment. The impetus for that growth is rooted in changing consumer preferences. According to Nielsen, 70 percent of consumers will do their grocery shopping online by 2025, while less than 60 percent of dinner consumed at home will actually be cooked there, according to NPD Group. Today's online delivery market is estimated to be worth $20 billion. By 2022, according to Food & Wine, that number will jump to $55 billion. To get ahead of that trend, some large players in the grocery sector have opted to organically build new on-demand delivery services, but the private markets are betting on a coming wave of acquisitions as other large companies opt to buy those distribution channels instead of building them on their own.
Recent tariffs imposed on several products may ultimately affect the consumer industry, though it is still too early to tell what those effects will be. PE investment in manufacturing should remain consistent going forward, though investors may show signs of caution. The consumer sector will likely see much quicker adjustments as they relate to the recent Supreme Court ruling allowing states to collect taxes on companies without a physical presence in their states. In the short-term, the MM will need to spend resources to get up to speed on compliance if they aren’t already. Once those compliance channels are in place, the long-term effect of the Wayfair ruling should recede, and retailers will go back to business as usual.

**BREAKING NEWS**

The Supreme Court struck down the Quill ruling, the 1992 ruling that held that states could not levy sales taxes on businesses without a physical presence in their state. *South Dakota v. Wayfair*, which overturned Quill in June, allows states to collect taxes on online sales regardless of the company’s headquarters. This will have a fairly significant impact on the MM, particularly on e-commerce retailers. In years past, the Quill ruling has effectively protected many businesses from collecting and remitting sales taxes in jurisdictions where they did not operate a physical location such as an office or warehouse. With the Wayfair ruling, MM e-commerce companies will need to speed up their compliance efforts to meet the new standards.
ON-DEMAND FOOD SERVICES ARE UPENDING THE TRADITIONAL MODEL FOR RESTAURANTS AND RETAILERS.

The online delivery market is estimated to be worth $20 billion. By 2022, that figure will likely hit $55 billion.

Ordering food electronically from restaurants has tripled over the last five years, and one study estimated that 70 percent of consumers will shop for groceries online by 2025.

DEAL SIZES HAVEN'T COME DOWN IN COMPETITIVE CONSUMER PRODUCTS SECTOR.

Median PE deal size through first half remained historically high at $83.7M.

Q2 value nearly matched Q1 totals despite 23 percent volume decline.

NORTH AMERICAN M&A BOUNCES BACK, BUTTRESSING VERY SOFT NUMBERS OUT OF EUROPE.


CP M&A boosted by $96B spent in media space, more than all media activity in 2017 combined.
SHOPPING SPREES ARE SLOWING
Mergers & acquisitions (M&A) deal counts have trended downward, particularly in the last two quarters. Only 655 transactions were finalized in Q2, a quarterly total that hasn’t been seen in years. Volume is down almost 62 percent from Q4 2017, though future totals may trend higher as more data is collected. Total value, on the other hand, has been broadly consistent in the same timeframe. The $191 billion invested in Q2 2018 was strong compared to previous second quarters and represented a healthy rebound over Q1’s $121 billion.
FEWER DEALS BUT VALUE STEADY

PE activity in the CP space has waned since early 2015, but the decline has been at a slow pace. The 2015 deal counts in the 400-per-quarter range have averaged down to 300 or fewer deals per quarter in today’s market. Like other sectors, however, combined value remains strong by comparison, helping prop up the median PE deal size above $80 million for a second straight year (so far).
**ACQUISITION SLOWDOWN**

One major reason for the overall slowdown in CP M&A activity has been a sustained decline in corporate acquisition. The slide is most visible when looking at PE-backed exits, which have historically been driven by strategic buyers. Only 39 exits were made to strategics in the second quarter, less than half of the volume seen as recently as Q4 2016 (87). Secondary buyouts (SBOs) have waned as well, though less dramatically. 50 SBOs were completed in Q2 2018, an almost 50 percent fall since Q4 2016.
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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 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.