Q3 2018 CONSUMER PRODUCTS SPOTLIGHT
M&A trends and private equity deal activity
“Food traceability significantly affects transparency and cost savings. Retailers and suppliers no longer have to guess where products are if they need to be recalled. They’ll know exactly where they are and what shelf they’re on going forward.”

Victor Kao,
Director, Risk Advisory Services
Consumer-facing businesses face a number of challenges in today’s market. While strategics continue to pursue ways to expand their offerings, consumer companies are becoming more cognizant of how recent trade policies may affect them going forward. The potential impacts of a global trade war have come into focus over the past few months—many companies felt a reason to believe that recent tariff policies would not pose a substantial risk to them. Heading into the final quarter of the year, many consumer products (CP) businesses are feeling more pressure, in many cases due directly to larger trade policies. Those pressures are beginning to influence earnings, and many RSM clients are requesting more due diligence as a result. Strategics and private equity investors alike are showing signs of hesitation, and active dealmakers are trying to better understand how they might avoid those tariffs going forward. If they can’t avoid them, they are looking for ways to more effectively pass those costs on to consumers.
Food traceability supported by blockchain has an immense and pervasive impact within the food and beverages space. Consumers want transparency, and they want to know from where the products and ingredients are coming. Food traceability gives integrity and confidence to the process, including how the product was packaged and distributed to its final destination. It also provides transparency and cost savings when it comes to food safety. Blockchain technology allows manufacturers, distributors and retailers to know exactly where each product lands in the event of a recall. In years past, Walmart needed six days to reliably trace the origin of recalled products. Today’s blockchain process reduces that search to six seconds. Supply chain costs are also reduced, as companies are now able to optimize efficiencies throughout the process. Sourcing, packaging, distribution and transportation costs are all affected in a positive way.
The consumer industry continues to adapt to changing technology and evolving consumer behavior. Today’s labor market is tight, and many CP companies are looking to technology to help reduce labor costs while focusing on management retention. Strong management remains a priority across the industry, and demand for quality management is pushing companies to offer managers more benefits and more flexibility. Elsewhere, strategics and investors alike are actively looking for ways to expand their product lines, particularly with respect to healthy products. Should the public markets see a significant sell-off near-term, we may see an uptick in private investments. However, if interest rates continue to rise as expected, private equity deals will inevitably become more expensive. With capital to spend and heightened competition across the board, finding the right platform will continue to be a priority.
PE ACTIVITY HAS TRENDED HIGHER THIS YEAR

Coming off an anemic Q4 last year, PE investors have spent more money in the CP industry each quarter.

$67B

Almost $67 billion was invested last quarter, a 70 percent increase over Q4 2017’s $44.5 billion haul.

$170B

The $170 billion spent so far this year is knocking on the door of last year’s $193 billion. A strong Q4 will push 2018 spending to its highest level since 2015’s banner year.

PE INTEREST IN RETAIL, HOWEVER, IS TRENDING DOWN

Deal counts in retail are on pace for a 35 percent decrease this year, barring an exceptionally strong Q4.

35% DECREASE

Deal volume projected to hit a multiyear low.

Capital invested in retail companies is waning. At current pace, total value will decline 35 percent from 2017.

CONSUMER M&A CONTINUES TO TIGHTEN

CP volume fell below 1,000 transactions for the third consecutive quarter.

M&A’s decline is most pronounced in Europe, with only 293 transactions last quarter.

CP industry deal volume has declined 43 percent from one year ago.
Another $67 billion was invested by private equity sponsors last quarter, the highest single-quarter tally since 2015. This year is on pace to leapfrog both 2016 and 2017 totals and represent the second-highest annual total since the financial crisis. The same is true for both North America and Europe—an encouraging sign—though PE firms are also signing much larger deals this year. The median CP deal size has rocketed to $129 million through Q3, compared to an $84 million median last year.
Retail investments are trending down, by both volume and value. Barring an unexpectedly high fourth quarter, private equity retail volume should hit its lowest levels going back to 2013. Thus far this year, less than $13 billion has been invested in the space, a far cry from the $31.5 billion spent last year. Interestingly, the broader M&A retail market is also trending down, suggesting a sector-wide pullback heading into 2019.
CONSUMER M&A CONTINUES TO TIGHTEN

Consumer-related M&A fell below 1,000 transactions for a third consecutive quarter. The downward direction in volume goes back several years. Activity peaked in Q1 2016 with over 1,500 deals, but last quarter's volume of 616 transactions was well below half of activity levels as recently as three years ago. Much of the weakness is centered in Europe, which has seen a decline in volume with little change in value. North America, on the other hand, has seen softening volume amid some very strong quarterly values; Q2 2018 represented one of the best quarters for value since the crisis.
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.