North American consumer trendspotter: Deal volume jumps up after 2023 lows; uptick in buyout value

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Consumer merger and acquisition volume saw a 46% year-over-year increase in 1H24 to USD 31.95bn, and buyout volumes crept up from 1H23, according to *Mergermarket* data. As concerns over a recession have waned over the past year, dealmakers have become slightly optimistic but cautiously so.

The top global deal is **Macy's** [NYSE:M] pending 91.24% stake sale to **Arkhouse Partners** and **Brigade Capital Management** for USD 6.249bn, based on a cash offer price of USD 24 per share, which values Macy's at USD 12.076bn, including net debt. Arkhouse Partners and Brigade Capital Management reportedly increased their offer to acquire the department store chain earlier this month to USD 24.80 per share, roughly USD 6.9bn, according to the Wall Street Journal.

Other major North American transactions include the USD 4.6bn merger of **Primo Water Corporation** [NYSE:PRMW, TSX:PRMW] and **BlueTrion Brands**, and **Walmart**'s [NYSE:WMT] USD 2.3bn acquisition of television maker **Vizio**.

The first half of the year saw buyout volumes of USD 1.6bn, compared to USD 1.05bn in 1H23. In May, **Brightstar Capital Partners** agreed to acquire Nevada-based slot machine maker **PlayAGS** in a USD 1.1 bn deal that's expected to close in the latter half of 2025. Deal valuations totaled USD 1.48 bn across 19 deals during 1H24, according to *Mergermarket* data. Sector advisers hope the increased activity will continue in 2H24, but that will be highly dependent on inflation and how the Federal Reserve acts on interest rates.

Beauty and pet products a bright spot

The consumer sector's perennial strong areas – pet, beauty and consumer services – continued to perform well in 1H24. Pet and beauty continue to be active as investors see continued growth in the space, according to Richard Kestenbaum, co-founder and partner at **Triangle Capital**.

"We wind up selling companies that identified a way to make great money and be successful in industries that were often tired," Kestenbaum says. "It's both industries that are growing and consolidating but it's also innovation in existing spaces."

Conversely, sub-sectors such as durables, apparel, hard goods, furniture, and discretionary items are not performing as well due to tighter consumer budgets, Christopher Petrossian, managing director at **Lincoln International** says.

Restaurants are likely to see restructuring-driven deals in 2H24 as food and labor costs continue to climb, particularly in California where the minimum wage for restaurants rose to USD 20 per hour in April, says Jim Cassel, chairman and co-founder of Cassel Salpeter & Co. These pricing pressures under already small margins have restaurants looking to sell, Cassel says, adding that potential changes in tax laws around capital gains might also lead to the sale of troubled assets.

In CPG, there's been a lot of activity redeploying cash and selling assets with the intent of assessing where the market will be over the next decade, Andrew Dickow, managing director at

Greenwich Capital Group, says. **Unilever**'s [LON:ULVR] sale of **Ben & Jerry's** is exemplary of this, as the company attempts to transition from food and beverage to consumer products.

Food and beverage - a lack of appetite

The food and beverage sector contributed about USD 9.5bn of deal value on 118 deals announced in 1H24, according to *Mergermarket* data. The largest deal was a still-pending USD 4.6m merger between **Primo Water Corporation** [NYSE:PRMW, TSX:PRMW] and **BlueTrion Brands**.

The sector has continued to see significant declines in deal volume compared to pre-pandemic levels.

The macro outlook for food and beverage M&A has been weak since 2021, with deal volume continuing to drop due to a decline in VC funding and the creation of new startups, according to Michael Zakkour, managing director at SellSide Group.

"There were probably too many [startups] at one point, and this is just a natural correction where deal flow is lower because there just simply aren't as many potential new targets coming online," Zakkour says.

Consumer preferences are shifting towards discretionary spending on experiences over products, which Zakkour notes could lead to a resurgence in deal flow for health and wellness products and quick service restaurants offering unique experiences.

The continued low number of PE and VC exits in food and beverage compared to pre-pandemic levels is due to increasing consumer acquisition costs and how crowded the sector is, Zakkour says. However, that could change in the next 1 or 2 years as investors better understand how data in e-commerce affects the products brought to market and put on shelves, he adds.

A wait-and-see game with the economy

Consumer M&A activity in 2HQ2 will be largely defined by the larger macroeconomic trends affecting consumer spending and borrowing for transactions.

While there is plenty of available debt for deal, particularly on the private debt side, high interest rates have made it difficult for buyers to borrow funds, Petrossian says. Once the Federal Reserve begins to cut rates, more capital will be available, leading to more M&A activity, he says.

Inflation is also a mitigating factor for deals getting done, Petrossian says. One private equity firm told him that 70% of its 2023 deals that came to market failed due to concerns surrounding inflation and consumer spending and sentiment.

Lincoln International's approach has been to sit and wait on its backlog of consumer deals until market conditions improve, he says. The firm will reassess its pipeline after Labor Day in case it wants to close deals before the end of the year. Alternatively, it may wait until 1Q25 after the Federal Reserve cuts interest rates and the presidential election is decided, Petrossian says. "Forecasting this year's fourth quarter and being in the middle of a deal and missing your budget is not a good thing to process," Petrossian says. "At a certain point, it might make sense to close Q4, see what it looks like, and go in on a deal early next year."

A recession, in theory, would be devastating to consumer M&A activity, but Triangle Capital's Kestenbaum says that's much less of a concern now compared to inflationary pressures. "The market hates surprises and it wants to see good news, and it wants to be told good news is coming," he adds.

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