Growing confidence

Consumer and Retail M&A Outlook 2024

KPMG International

kpmg.com

Contents

Click on each consideration to learn more.

Foreword

Investors do not like uncertainty. And 2023 was a year rife with it. Inflationary pressures, rising interest rates and slowing discretionary spending put pressure on consumer and retail companies alike as margins were squeezed and growth slowed. At the same time, geopolitical and economic uncertainty — combined with rising financing costs — put a damper on dealmaking. Uncertainty ruled.

The global Consumer and Retail (C&R) M&A market contracted 4 percent year-over-year to reach 5,340 deals worth US$174 billion with a more significant 27 percent decrease in deal value year-over-year, reflecting a particular slowdown in large transactions. The decrease in volume was fueled by slow activity in Europe (which fell 11 percent year-over-year to 2,136 deals) and ASPAC (a 4 percent decline year-over-year to 1,855 deals) which, together, make up 75 percent of all deals worldwide.

The decline in value was largely due to a 26 percent decrease in the number of large deals (more than US$100 million) in the sector. Meanwhile, Private Equity investments — which usually contributes more than 15 percent to all deals in the sector — saw volumes drop 4 percent as dealmakers refocused onto the mid-market.

Amongst sub-sectors, food and beverage (both brand owners and retailers) saw 2 percent decline year-over-year M&A activity, contributing 39 percent to deal volumes, on the back of the continuing activity in the health & wellness sub sector. Consumer products M&A declined by 4 percent year-over-year with just 1,193 deals. Retail deals suffered the highest volume declines, contracting 6 percent, led by a 56 percent decline in deals involving eRetail (internet and catalog retailing), likely due to some perceived mismatches between valuations and profitability.

Many of the factors that sowed uncertainty in 2023 are starting to stabilize, we expect the latter half of 2024 to deliver a slight uptick in M&A activity in the sector. Some expect interest rates to start falling in the second half of the year which should make deals more attractive. Other indicators are also improving — the Food Price Index, for example, trended downwards throughout 2023, which should help alleviate some of the margin pressure for some companies. Additionally, there will be a lot of pressure on Private Equity (PE) to do deals who sit on a nearly US$4 trillion dry powder and have been quiet over that last 18–20 months.

Pockets of strong activity are also expected. Some categories — such as luxury goods, pet care, and beverages (particularly health and wellness drinks) — are expected to be of higher interest to strategic and financial investors. Divestments will also drive activity as companies sell categories that are environmentally unsustainable or unhealthy. Expect divestment activity in the gum, confectionary and carbonated drinks segments, for example.

The pursuit of omni-channel capabilities is expected to continue to be a driver of M&A activity with online businesses look to interact with their customers in physical store settings, while brick-and-mortar entities leverage digital capabilities to better understand and predict consumer behavior. You should also expect to see an increase in the volume of spin offs, carve out and distressed assets coming to market as players refine their portfolios.

However, KPMG professionals are not forecasting an end to uncertainty in 2024. Far from it as there may not be any notable changes before Q2/Q3 2024. Indeed, you should expect to see continued geopolitical and economic uncertainty as many countries (more than half the world's population) hold elections and as inflation proves more stubborn than expected. These have traditionally acted as brakes on M&A activity, and we expect this to be the case in 2024.

In this environment, dealmakers and investors will need to move cautiously. KPMG professionals help consumer and retail organizations on the buy side and sell side to create sustainable and quantifiable value through the deal process. Contact a KPMG firm to find out how the team can help your organization grow through uncertainty.

Joshua Martin
Head of Global Deal Advisory, Consumer and Retail
KPMG International

The global C&R M&A contracted **4 percent** year-over-year to reach **5,340 deals in 2023** with a more significant **27 percent decrease in deal value**, reflecting a slowdown in large transactions.

Themes we see currently shaping M&A in the sector

Brakes on activity	Drivers of activity	Category activity
Consumer spending squeeze	Channel Evolution: Enhancing consumer proximity across platforms	Pet market stellar growth
Financing uncertainty	Refining of business portfolios	Consumer health/wellness products in food and drinks
Geopolitical uncertainty		Luxury and beauty to keep the momentum
Raw material price volatility		

Regional outlook

Americas

Dealmaking activity remains muted in both North and South America as investors wait to see how economic and geopolitical uncertainties play out.

Latin America

Brazil remains resilient but others are catching up

Consumer and retail M&A activity was muted across South America — in part likely weighted down by uncertainty in North America and high interest rates.

That being said, Brazil demonstrated some resilience with stability in C&R deal volumes year-over-year. Particularly notable were deals conducted by large foreign players (including Nestlé's investment in CRM Alimentos and Britvic's acquisition of Globalbev Bebidas) suggesting continued confidence in the region.

A recent survey of dealmakers by KPMG found that four out of five rated their most recent large deal in Latin America as a success on the whole. However, they also note a number of internal capability challenges that may be slowing the pace of dealmaking (including target identification, strategy and integration).

Many analysts believe that, having experienced a sharp drop in M&A activity in 2022, markets are slowly recovering.[1] Interestingly, the KPMG survey indicates that investors now see Mexico as the most attractive M&A destination in Latin America over the next two years. Given that Mexico saw just a third of the deal volume of Brazil in 2022, that suggests a significant change in appetite. Brazil was ranked second in terms of attractiveness, followed by Costa Rica.

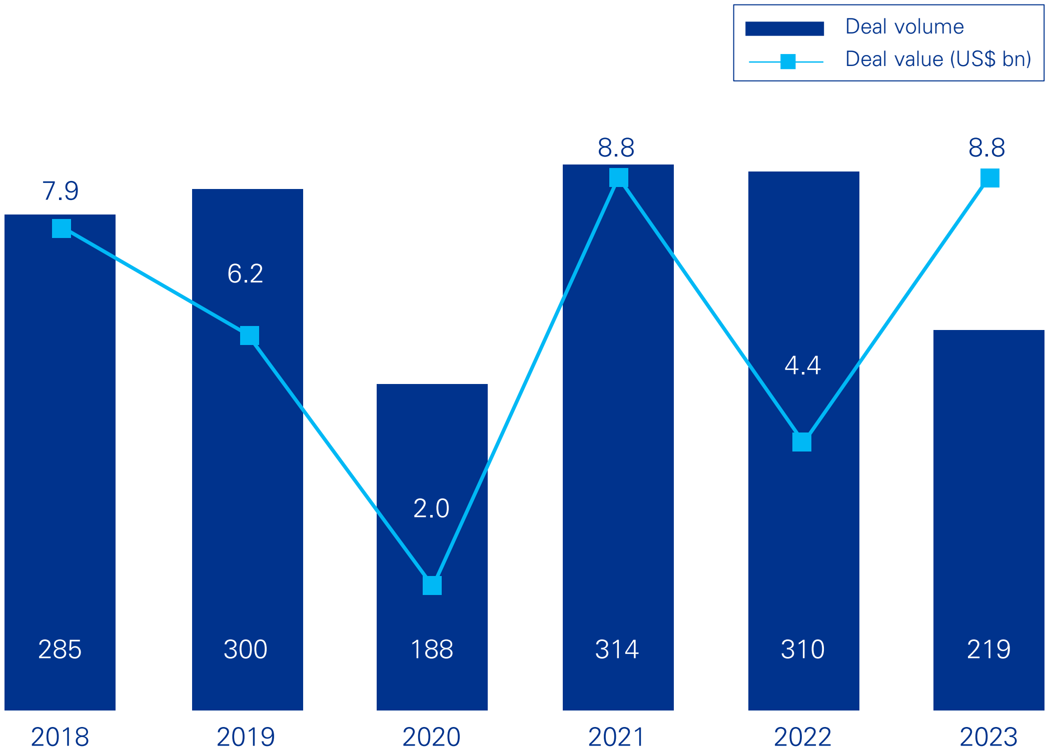
1. https://www.reuters.com/markets/deals/latam-ma-expected-recover-2023-ipos-may-take-longer-2022–12–27/

Europe

High interest rates, stubborn inflation and reduced consumer sentiment are dragging on European deal making activity. Yet there are still a number of significant opportunities for value across the continent.

France

Deal volume and value



Source: Refinitiv, accessed on 16 Jan 2024

Persistent inflation, a contraction in customer purchasing power (despite all-time high savings rates) and general macroeconomic uncertainty are adding pressure to margins and growth rates. At the same time, high financing costs are forcing the buy/sell gap wider. Many investors are therefore cautious about future growth outlooks and valuations.

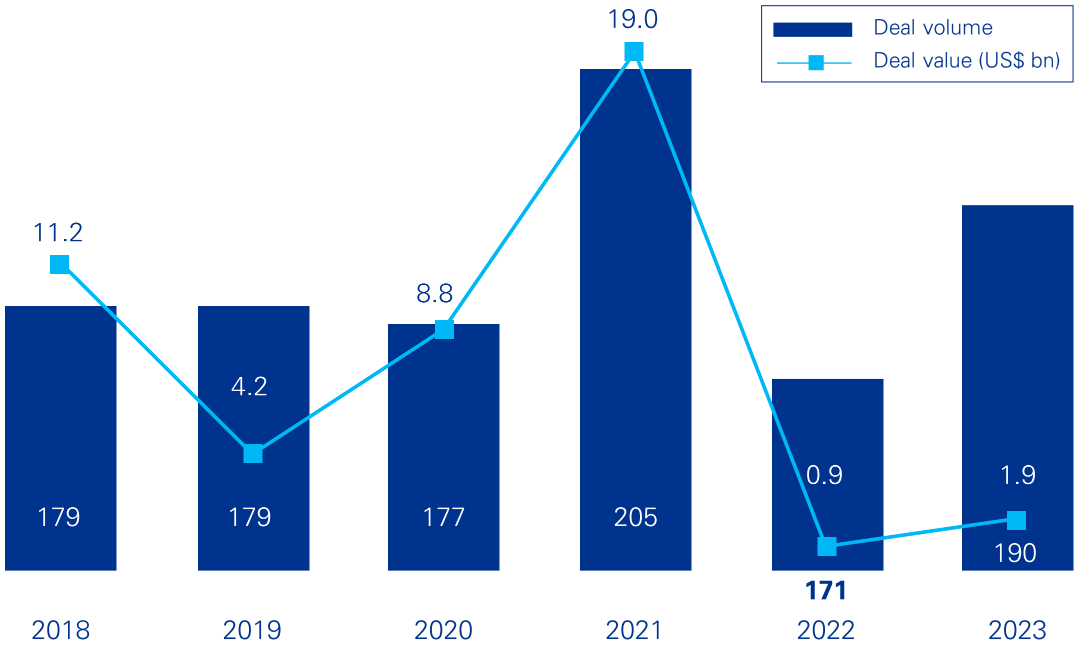
This has placed downward pressure on M&A activity in the consumer and retail sectors. Indeed, following a strong 2021 and 2022, market conditions for M&A in France have become more challenging over the past year with deal volume falling around 29 percent year-over-year. Big deals (over EUR200 million) have virtually disappeared.

What will convince private equity investors (who are sitting on some US$2.5 trillion of dry powder globally) and strategic investors to open their wallets? In this environment, it will likely be small-to-mid market cash generative companies with established business models and visibility on future revenue that will capture interest from M&A buyers. Those not fitting that bill will likely find the environment more challenging.

Following a strong 2021 and 2022, market conditions for M&A in France have become more challenging over the past year **with deal volume falling** around **29 percent** year-over-year.

Germany

Deal volume and value



Source: Refinitiv, accessed on 16 Jan 2024

Much like the rest of Europe, Germany is also dealing with inflation and economic weakness which, in turn, is undercutting consumer sentiment and dampening demand. Yet, even so, Germany's M&A market has stayed open, delivering a slight increase in volume over 2022. And valuations have stabilized over the past year, suggesting improved alignment between buyer and seller expectations.

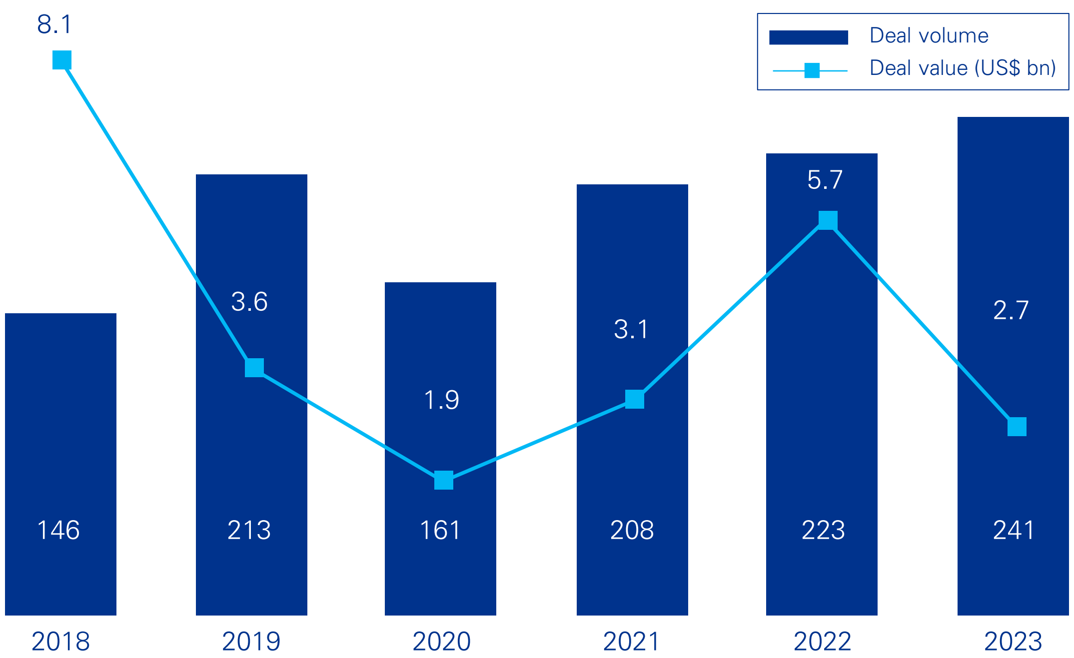
Within the German C&R space more broadly, we are seeing an increased urgency around innovation and technology adoption in an effort to get closer to the consumer. As a result, there has been increased appetite for companies that are adapting to technological changes and sustainability demands, as well as retailers using technology to enhance customer experiences and supply chain operations. Brands successfully executing digital transformations and those with direct-to-consumer models are also getting attention.

There are, however, some risks to manage in the future. Evolving regulation and policies — including antitrust and foreign direct investment considerations — could significantly influence dealmaking in the future. Increased ESG scrutiny will likely create challenges, but it could also boost dealmaking. Competition amongst geographic hotspots for M&A could also present longer-term risks.

Looking ahead, KPMG professionals expect to see increased M&A activity within the retail and leisure subsectors as organizations work to restructure their finances and their operating models. Companies that are undervalued or offer strong turnaround opportunities will also likely see increased attention.

Italy

Deal volume and value



Source: Refinitiv, accessed on 16 Jan 2024

Italy is one of the few markets globally to have bucked the downward trend in M&A activity since the pandemic. In fact, deal activity in Italy rose by 8 percent year-over-year in terms of deal volume, surpassing 241 deals in 2023 (versus 208 in 2021 that was an extra ordinary year for deals). And average valuations have risen from 9.65x to 10.58x through 2023.[3]

Italy's M&A activity was largely driven by deals in the retail sector, with apparel deals contributing around 22 percent of the total deal volume. One of the bigger deals, for example, saw French luxury group Kering SA acquire 30 percent stake in Valentino (an Italian fashion house) for around 1.7 billion euros (EUR) (US$1.84 billion).

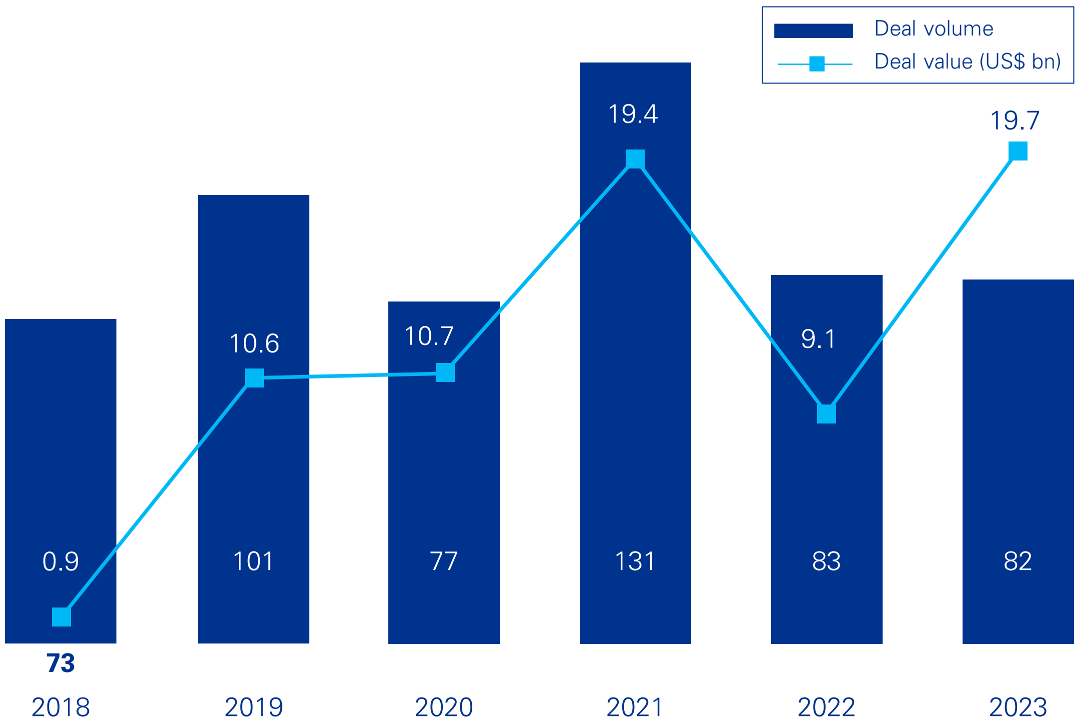
The outlook for Italy remains strong with analysts forecasting inflation rates to fall dramatically to 2.7 percent from the current highs of 6.1 percent. That should give investors' confidence in the market and some much-needed breathing space within which to conduct deals.

With **apparel deals** contributing around **22 percent** of the total deal volume. One of the bigger deals, for example, saw French luxury group Kering SA acquire 30 percent stake in Valentino (an Italian fashion house) for around EUR1.7 billion.

[3] https://www.nortonrosefulbright.com/en/knowledge/publications/74b32734/ma-in-italy-a-lively-but-unpredictable-outlook

Netherlands

Deal volume and value



Source: Refinitiv, accessed on 16 Jan 2024

Deal volumes remain relatively stable in the Netherlands with — 82 deals in 2023, compared to 131 in 2021 and 83 deals in 2022. Significant price inflation continues to impact revenues with consumer price indexes rising 3.6 percent in the first half of the year.

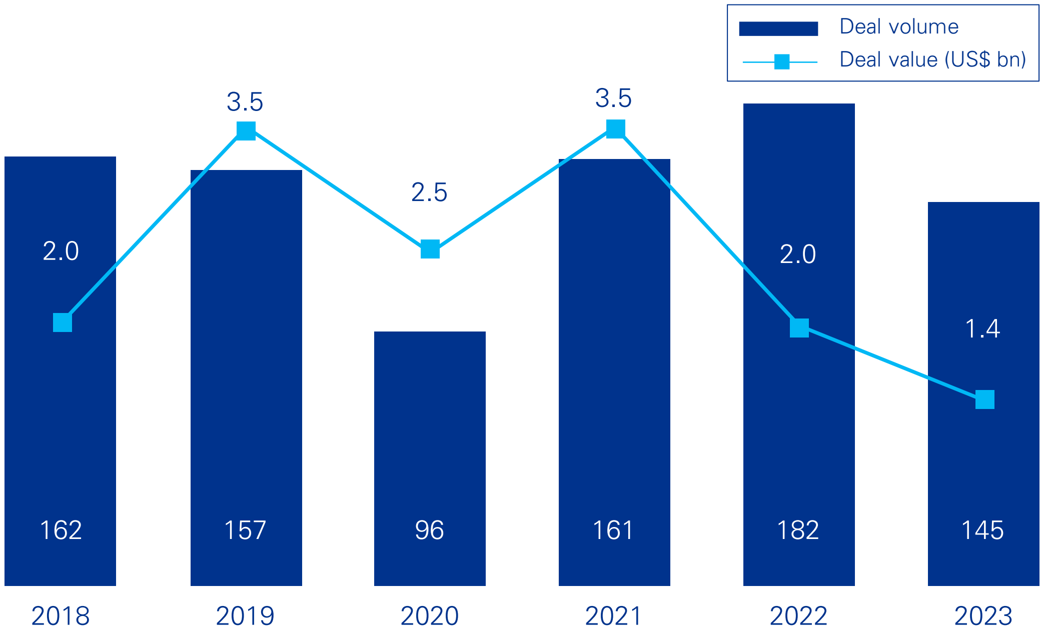
Activity may remain restrained for the time being. Domestic companies are likely to focus on store rationalization and stabilizing the business as raw material prices and supply chains start to return to normal. Some expansion decisions may also be shelved due to continued socioeconomic and geopolitical uncertainty.

That being said, expect to see continued action — particularly related to consolidation. The food industry has been particularly active in this regard, with smaller food retailers selling to larger ones in order to capitalize on scale of investment and purchasing power (such as Royal Unibrew's acquisition of Vrumona for EUR300 million, for example). KPMG professionals also expect to see large Dutch companies continue to seek out opportunities for vertical integration in overseas markets.

Domestic companies are likely to focus on store rationalization and stabilizing the business as **raw material prices** and **supply chains** start to **return to normal**.

Spain

Deal volume and value



Source: Refinitiv, accessed on 16 Jan 2024

In many ways, Spain has been remarkably resilient — significantly lower than in 2022 (Spanish Office for National Statistics estimates December 2023 inflation closed at 3.1 percent) and household consumption is on the rise (albeit still below 2022 levels thanks to higher interest rates).

However, growth is expected to fall to just 1.5 percent in 2024, according to the KPMG Global Economic Outlook, compared to 2.4 percent in 2023 recently announced by the Minister of Economy. And, as a result, investors remain somewhat wary of entering the market until they are sure inflation and consumption rates have stabilized.

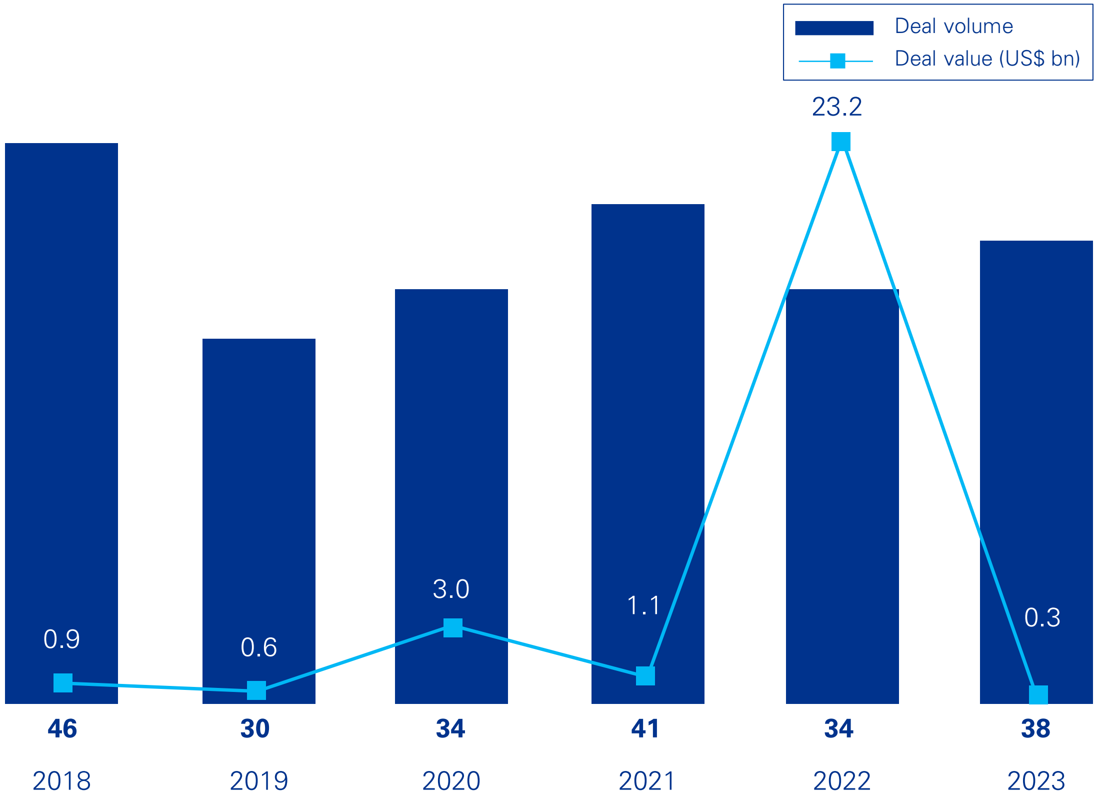
This has placed continued downward pressure on valuations in Spain's consumer and retail sector. Valuations had already contracted by 20 to 30 percent in the sector since 2020. And they are lower today than they were a year ago, suggesting the trend is not turning around rapidly.

Given the current environment, companies in the fashion, restaurants and leisure categories are expected to underperform as consumers trade down to private labels lower-cost alternatives. Branded consumer goods without a notable price or characteristic differentiator may struggle.

Low-cost staples, on the other hand, may perform well, as will products or services related to health, well-being and self-care (such as skincare and healthy food supplements, for example). Mid-market players who are less exposed to the current capital market uncertainties are also expected to capture some investor attention.

Switzerland

Deal volume and value



Source: Refinitiv, accessed on 16 Jan 2024

With inflation rates remaining in the 1–3 percent range[4] and associated financing rates also staying low, Switzerland has enjoyed some insulation from the downturn in M&A activity currently being experienced by its European neighbors.

Deal volumes remained steady through 2023, mostly led by corporate investors. Indeed, less than 10 percent of the deals conducted in Switzerland were PE-led, well below the EU average of 17 percent, reflecting the corporate drive to M&A activity.

Once again, the unique US-Swiss corridor played a key role in the M&A market, driving around 10 percent of the deals in the retail sector in 2023 and highlighting the strong bilateral relationship between the two markets.

KPMG professionals' view suggests that Switzerland in 2024 will continue to benefit from its stable economic condition, low inflation and favorable interest rates. It should also attract attention for the quality of its assets, reflecting demand for luxury brands and confidence in the market overall.

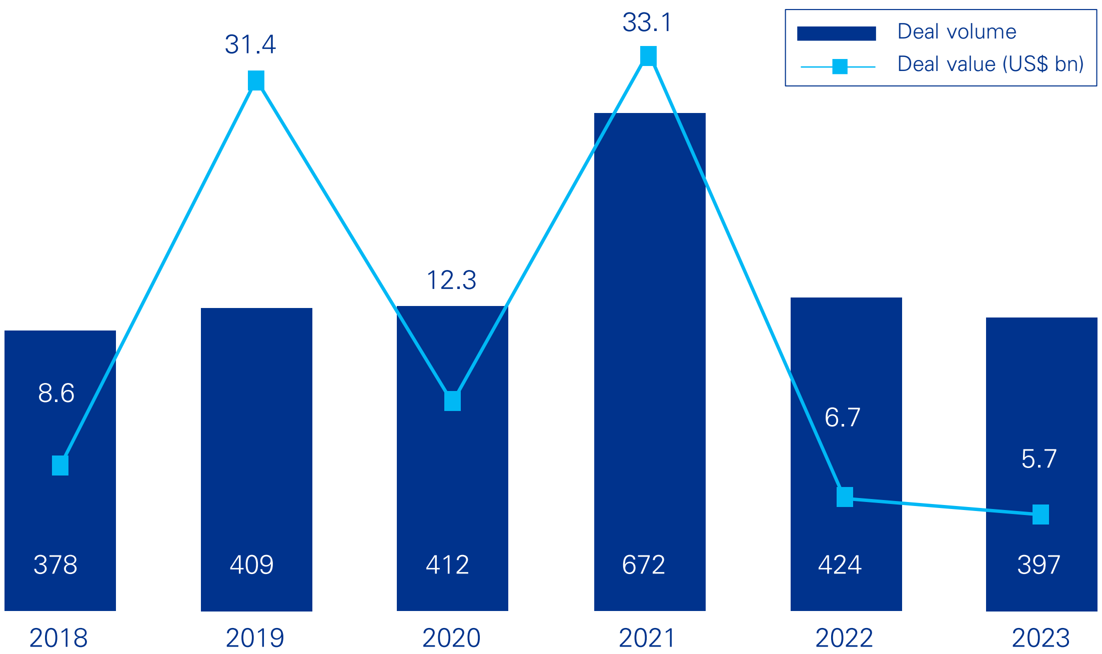
Indeed, less than **10 percent** of the deals conducted in Switzerland were **PE-led**, well below the EU average of 17 percent, reflecting the corporate drive to M&A activity.

4. World Bank website, Inflation, consumer prices (annual %) accessed in Dec 2023

United Kingdom

Deal volumes slow down

Deal volume and value



Source: Refinitiv, accessed on 16 Jan 2024

Aligned to other European economies, the backdrop for the consumer sector is challenging. The UK witnessed a 6 percent decline in M&A volumes Year-over-year with 397 deals worth US$5.7 billion (a 15 percent decline in values Year-over-year) in 2023. Moreover, the Bank of England forecasts inflation rates to remain above normal at least until 2025. Disposable income has reduced and consumers continue to be cautious with their spending, which is impacting profitability across the sector as volumes remain under pressure. Our analysis suggests listed C&R companies experienced a 5 percentage point decline in EBITDA margins through 2023.[2]

Concerns about overall business performance and the quantum and cost of debt available for acquisitions are impacting the deal market and forcing investors to think carefully about the valuation multiples that can be supported by current trends. Private Equity (PE) investment volumes have declined with only around 50 PE investments in 2023, versus more than 70 completed in 2021.

Over the past year, activity has been focused on businesses that continue to demonstrate the ability to show profitable growth, with the majority of activity in the UK being focused in the Beauty and Pet Care sectors, and businesses with a health and wellness proposition. We have also seen selected opportunistic transactions in more challenged sub-sectors (e.g. apparel and retail) where well-funded trade players have been able to acquire attractive brands. Private equity owners have been focused on improving portfolio performance and at helping extend the life of an investment. For example, businesses have refinanced, sold minority stakes and arranged mezzanine debt.

We expect the deal activity in 2024 to remain at a similar level given the challenging environment, with activity continuing to be focused on businesses with profitable growth, or sub-sectors where sellers have adjusted their valuation multiple expectations. We expect bilateral discussions or auction with limited numbers of parties to continue to be a route to successful completions as this is allowing investors to have deeper engagement with target companies to better understand the opportunities and risks.

2. Refinitiv accessed in Jan 2024; KPMG analysis

Africa

Market risks continue to hold back foreign deal making in Africa while currency challenges are slowing internal M&A activity.

Sub-Saharan Africa

Strong demographics and room to grow

Sub-Saharan Africa is a massive and diverse region with 46 countries, and 1.1 billion people who speak 1,500 different languages. It is therefore difficult to make generalizations about the region.

What is clear is that Sub-Saharan Africa boasts strong demographics and significant room for economic development, making the region appealing for those investors with medium-to-long term outlooks.

At the same time, however, expensive market-based funding options and declining aid budgets have led to a rise in the interest burden on public debt. With more than half of Sub-Saharan markets currently experiencing double-digit inflation, growth has moderated as household purchasing power declines.

Two major markets stand out for dealmaking activity — Nigeria and South Africa. South Africa's dealmaking activity has remained relatively resilient despite high inflation and energy supply challenges. With 33 deals already on the books for 2023, it seems South Africa will see a marginal increase in deal activity this year.

Nigeria's outlook is somewhat more complicated. In June 2023, Nigeria floated the local currency (Naira) which sparked a rapid devaluation against foreign currencies. Some global companies (including GSK, Sanofi and P&G) exit the Nigerian, with plans to implement a third-party model for the distribution of their products in the country.

With an anticipated end to US rate hikes, the region is optimistic that deal value and volumes will return as local currencies regain some strength.

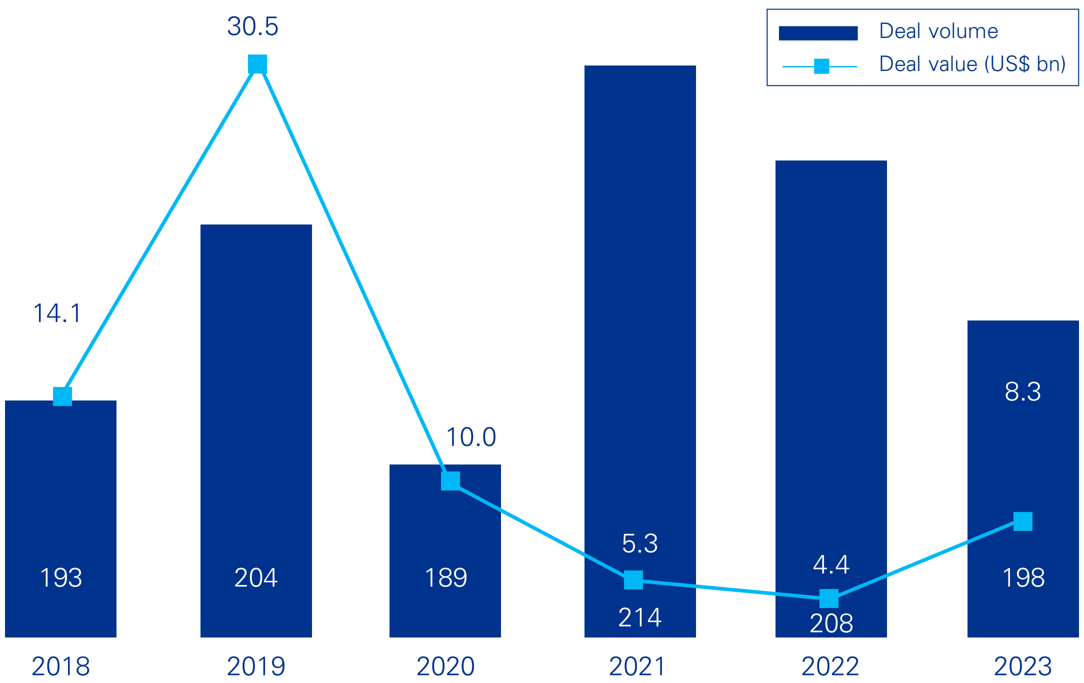
Asia Pacific

Foreign and regional cross-border deals continue to drive dealmaking as companies seek to diversify their offerings and scale up their footprints.

Australia

Exposure to consumer spend creates challenges

Deal volume and value



Source: Refinitiv, accessed on 16 Jan 2024

Concerns about consumer confidence and the outlook for consumer discretionary spend impacted C&R deal activity in Australia in 2023. Whilst the bid-ask spread is closing, there remains a valuation expectation gap between buyers and sellers, which coupled with a more risk averse investor approach and higher bar for due diligence have all impacted the ability to complete deals, relative to 18–24 months ago.

We are seeing a growing valuation gap between high-quality businesses and the wider pack of C&R players who are more significantly impacted by reduced discretionary consumer spend. Those without a global footprint and the associated brand position are finding it difficult to complete deals in the current economic climate. Domestic retail deals have been particularly challenging with demand and valuations for local health and beauty brands noticeably reduced.

The M&A market saw a clear pivot towards more defensive businesses, with successful C&R deal activity largely focused on high quality businesses and market-leading brands with less exposure to discretionary spending patterns.

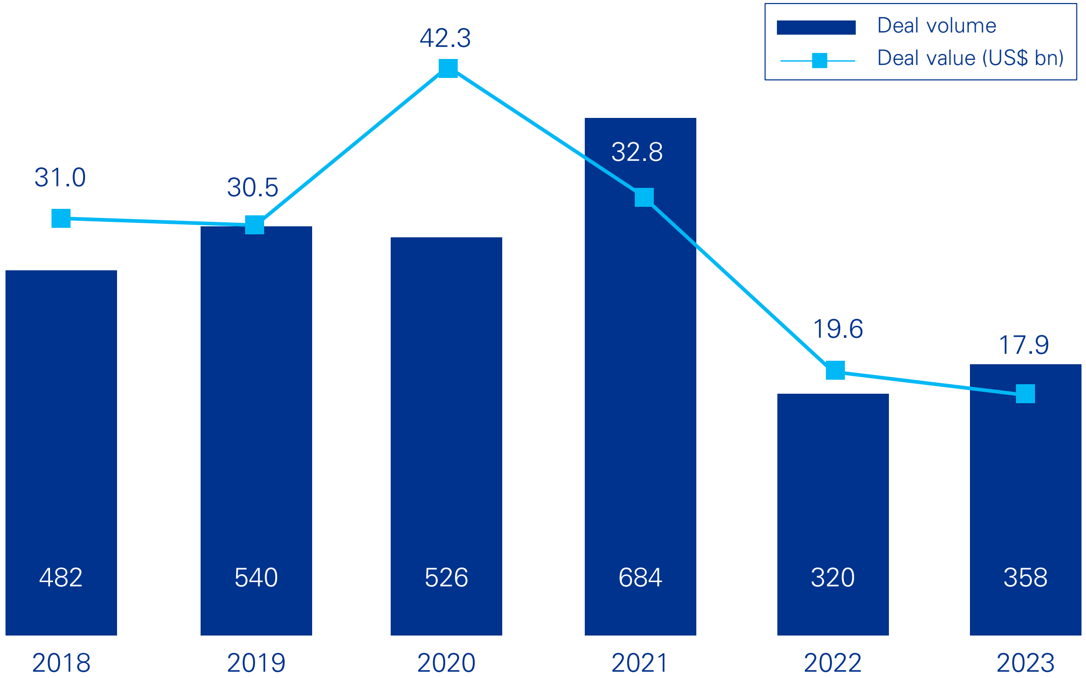
This is reflected in significant deal activity from foreign investors seeking to snap up Australian brands that have global reach. Zimmermann, a luxury fashion brand, was acquired by Advent International, a US PE firm; Aesop, a luxury cosmetics brand, was bought by L'Oréal; Bondi Sands, a skincare and cosmetics brand, was bought by Kao Corporation, a Japanese cosmetics company. Around 75 percent of the C&R deals in 2023 were cross-border.

PE deals in the sector are down 35 percent year-over-year. Transformative corporate M&A deals have also been limited as boards and investors become more risk-averse and access to capital becomes more challenging.

China

Dealmaking remains resilient

Deal volume and value



Source: Refinitiv, accessed on 16 Jan 2024

While China's deal count increased 12 percent year-over-year (with around 358 deals in 2023), value is only around half of what it was in 2021. The absence of large deals across the globe impacted the country's M&A ground, as well, influencing investor sentiments.

There is expected to be a soft recovery of inbound activity in 2024 following a challenging 2023 that was impacted by macroeconomic and geopolitical headwinds. However, the sectors such as home improvement, apparel and accessories that stayed active with 15 percent and 13 percent Year-over-year growth in volume, respectively, in 2023 will continue to stay of interest for investors. Especially, sportswear or athleisure has seen immense growth in the last few years. Another example of the sector's confidence is Amer Sports backed by Chinese athletic apparel maker ANTA Sports announced a possible IPO on the NYSE in the first week of the new year.

China remains an important market and contributes a considerable share of global revenues for some MNCs. In the coming year, MNCs will continue to revisit their China strategy and look for alternative investment methods such as carve outs, joint ventures (JVs) or asset light structures, among the others.

PE investment has slowed in China due to investment-exit concerns following the announcement of new government regulations that will reduce the number of IPOs and that will prioritize certain sectors.

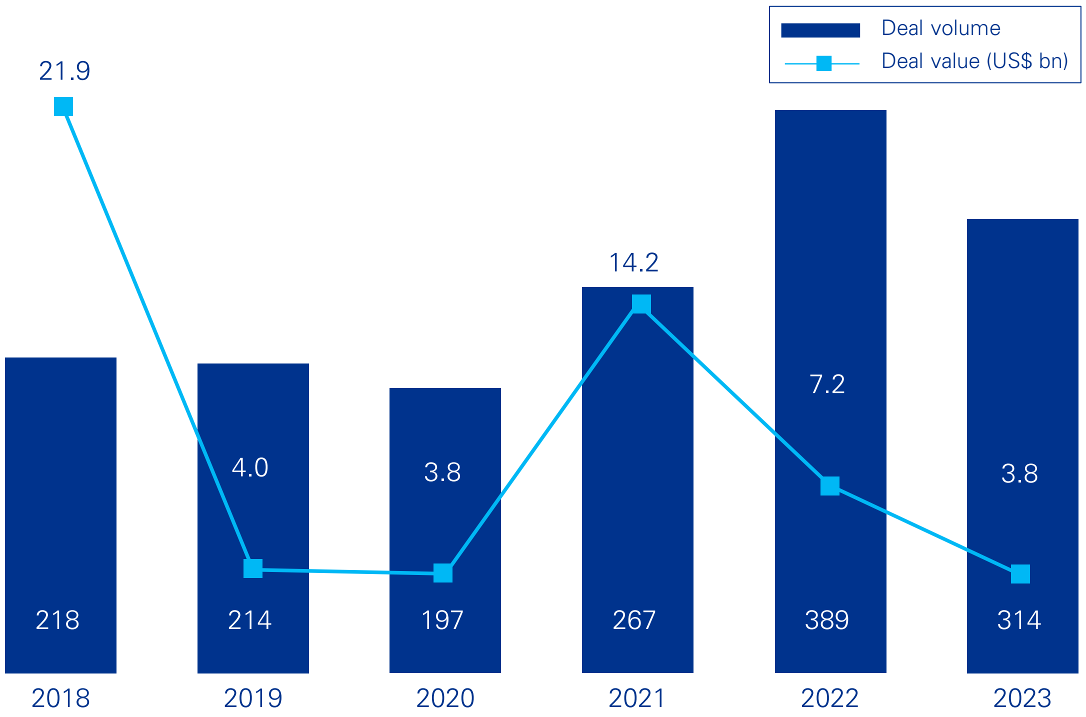
The consumer and retail M&A market in the country is expected to see steady growth and increased activity in select sectors as players capitalize on growth opportunities.

The sectors such as **home improvement, apparel and accessories** that stayed active with **15 percent** and **13 percent** Year-over-year growth in volume, respectively, in 2023.

India

A refocus on earnings expectations slowed deal making in 2023, with a strong turnaround expected in 2024

Deal volume and value



Source: Refinitiv, accessed on 16 Jan 2024
Note: The deal value in 2018 includes US$16 billion Walmart's Flipkart transaction.

While the pace of dealmaking slowed somewhat in 2023 as compared to 2022, volume remains well above India's pre-pandemic average. Around 314 deals were conducted in 2023. There are assuring signs that deal activity will pick up pace in 2024, with strong investor sentiment as reflected by all-time high capital markets.

Last year's data suggest that around half of India's listed companies missed their earnings forecasts in 2023. As a result of which most corporates focused on managing their revenue targets and profitability rather than pursuing inorganic growth. This was exacerbated by slowdown in VC investment in early stage companies.

PE firms, however, continued to evaluate deals in the mid to large market segments and are expected to double down on investments in India given their fund allocation for the sector and overall optimism on the India growth story on the back of continued economic reforms and favorable geopolitical environment.

Food services, restaurants and casual dining saw significant dealmaking in 2023 (up 22 percent year-over-year) and this pace should extend into 2024. There has also been a significant focus on corporate capacity building, leading to an uptick in dealmaking across multiple sectors. Over the coming months, increased activity in the beauty, personal care and packaged food sectors is expected.

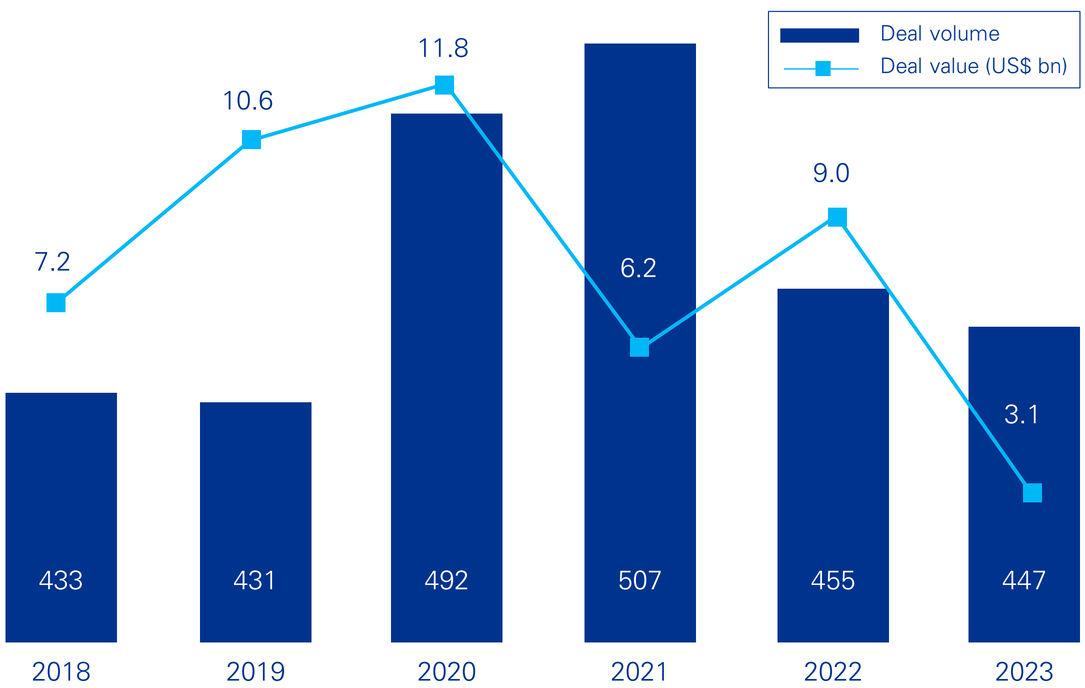
There may be some activity around technology companies as large retail companies move to incorporate new technologies and models into their existing operations in an effort to reduce costs and improve scale.

Last year's data suggest that around half of India's listed companies **missed their earnings forecasts in 2023**.

Japan

A weaker Yen creates challenges and opportunities

Deal volume and value



Source: Refinitiv, accessed on 16 Jan 2024

Lower valuations are weighing on dealmaking activity. In 2023, M&A value stayed low owing to lower valuation of M&A targets in US, Euro and Asian markets which slowed down Japanese companies' outbound investments due to less number of sellers. Additionally, in October 2023, the Yen hit a 32-year low against the US dollar which, in turn, had a negative impact on M&A activity as corporates worked to shore up their financial statements. Deal sizes shrank as the number of large deals (valued at more than US$100 million) tumbled by more than 2 percent.

A weak Yen is both a challenge and an opportunity. Cross-border deal volume is expected to remain stable through 2024 as a depreciated Yen makes Japanese companies more attractive to large international players. Private equity-backed deals saw a small but steady increase (3 percent) year-over-year which is also expected to carry over into 2024. Interestingly, the market also saw 14 outbound deals where buyers from Japan acquired assets in other Asian markets.

Resource scarcity continues to pose significant structural challenges to Japan's economy as a lack of resources — human resources in particular — start to impact the production cost of goods which, in turn, could negatively impact M&A activity going forward.

A recent trend towards building larger and more diversified businesses seems set to continue. Many players are diversifying into adjacent markets. For example, there were nine deals in 2023 that saw drug stores acquiring grocery supermarkets with the aim to expand their product range into food and groceries. We are also seeing players start to make alliances with smaller companies that can help them start new digital businesses.

Deal sizes shrank as the number of large deals (valued at more than US$100 million) tumbled by more than **2 percent**.

South East Asia

Supply chain diversification and demographic trends provide a boost

Corporate deals dominated the M&A market in South East Asia in 2023, lifting deal volume up by some 33 percent year-over-year. Interestingly, around half of all deals in the region were cross-border, largely from other ASPAC markets including Japan, China and Singapore. Food and beverage manufacturers and retailers saw considerable activity and interest.

This type of activity is expected to continue into 2024 as companies seek to diversify their supply chains away from China. That should provide a boost to many markets. Indonesia, for example, saw consumer and retail deal volume jump 30 percent year-over-year — mostly driven by cross-border deals.

Global operators are also expected to increase their investments into the region. The past year saw rising interest from US and UK investors (particularly in the ingredients segment where five deals were completed in 2023). Boasting favorable market conditions and comparatively easy market entry regulations, we expect overseas players to increase their focus on the region going forward. These investors continue to seek scale and have a positive outlook on demographic demand trends.

Sector outlook

Agriculture

Uncertainty in the fields but not in the yields

It was a slow year for dealmaking in the agriculture sector. Deal values shrank 30 percent year-over-year on the back of 8 percent lower deal volume (at around 455 deals). Many of the bigger deals were driven by vertical integration strategies and about a quarter took place in Asia. However, global market value for the agriculture sector is expected to grow at 5.66 percent (CAGR) until 2028, to reach US$4.86 trillion[5] in value.

One big challenge facing the sector is climate change. According to the OECD, the food system accounts for 12 percent of global greenhouse gas emissions. Yet the sector is one of the most 'at risk' due to climate change and natural disasters like flood, drought and hail. It is in everyone's best interest to find ways to reduce agriculture's footprint.

Governments will need to play a key role. Indeed, many are facing growing pressure to realign their policies in ways that drive greater international cooperation around the types of structural adjustments that will need to be taken in order to meet the world's sustainability goals. Yet policy reform takes time. And investors are somewhat nervous about the direction it might take.

In 2024, expect to see significant activity around agriculture technology companies. Recent data suggests agricultural production needs to increase by 68 percent by 2050 in order to meet the needs of the growing population.[6] New farming technologies will be key. M&A is expected to focus on technologies that enable farmers to derisk their farming system, especially where traditional agri-tech companies look to buy agricultural businesses because of the innovation present within their farming systems.

In 2023, most deals in Asia involved farm management or farm technology start-ups — companies using technologies like blockchain, AI and computer vision to improve crop yields, enhance supply chains and drive sustainability. Perhaps not surprisingly, private equity played a key role in many of those transactions.

Global market value for the agriculture sector is expected to grow at **5.66 percent** (CAGR) until 2028, to reach **US$4.86 trillion[5] in value**.

5. Agriculture — Worldwide | Statista Market Forecast
6. AT2050_revision_summary.pdf (fao.org)

Food and beverage

Alcoholic and non-alcoholic beverages

The deals should keep flowing into 2024

2023 brought increased deal volume to the sector with non-alcoholic deal volume increasing 3.5 percent and alcoholic beverage volume increasing 2 percent. More than US$13.3 billion changed hands with the largest deal of the year (Swire Pacific selling it's Coca-Cola USA unit) valued at US$3.9 billion.[7]

The sector will continue to work through some risks in 2024, however. Sustainability will be key — not only due to shifting customer preferences but also to better manage volatile natural resource costs. The sector is highly reliant on water, energy and oil prices, which creates a number of environmental vulnerabilities. Competition is also expected to remain high with smaller players innovating on their channel offerings and larger players mastering the art of differentiation.

Looking ahead, three interesting sub-sectors seem set for growth — and potential M&A activity.

01 Spirits and wine:
Spirits are expected to grow at 5.6 percent[8] to US$191 billion between 2023 and 2028, and wine is anticipated to grow at 4.3 percent to US$457 billion.[9] As investors consolidate into the markets, this sector may become a deal party favorite.

02 Nutritious beverages:
Analysts expect this sector to enjoy growth rates of 6.5 percent over the next five years (to reach a US$203 billion market size) led by a shift towards healthier lifestyles, reduced sugar consumption and consumer desire for convenience.

03 Ready-to-drink (RTD) beverages:
Globally, the RTD beverage segment is expected to grow by 7 percent, into a US$327 billion market, by 2028. Many prominent beverage players are making strategic acquisitions to expand their portfolio and capitalize on growing demand.[10]

04 No/low-alcohol beverages:
Consumer health consciousness is also behind the expected rise in demand for these beverages, with growth of 13 percent expected. By 2030, the market is expected to top US$70 billion.[11]

7. Hong Kong's Swire Pacific sells U.S. drinks unit to shareholder for $3.9 billion | Reuters
8. Spirits Market Outlook, Trends, Size, Share Analysis And Forecast 2033 (thebusinessresearchcompany.com)
9. Wine Market Size, Industry Share, Global Analysis, Future Demand, 2030 (fortunebusinessinsights.com)
10. Ready-to-Drink Beverages Market Size | Growth Forecast [2030] (fortunebusinessinsights.com)
11. A public health perspective on zero- and low-alcohol beverages (who.int)

Food and beverage (Cont.)

Food

Looking forward to a healthier year

Demand for food is increasing with the food segment expected to see 8.5 percent growth over the next five years from a base of US$42.1 trillion in 2023. Yet that has not translated into massive deals. In fact, the sector saw a 59 percent decline in deal volume year-over-year with only around 1,000 deals conducted in 2023.

A few pockets of activity have emerged however. About 40 deals in 2023 (worth a total of around US$14 billion) were for ingredient assets as companies looked to drive vertical integration. The frozen food market also saw some activity (such as the Nestlé/PAI Partners Joint Venture for frozen pizza in Europe).

However, after more than a year of constant price increases, we are seeing the food price index start to fall, with consumer manufacturing and retailers alike managing price dynamics on a full-time basis. While this reduces the level of volatility in margins that has made deal making more difficult, we continue to see headwinds tightening consumer disposable income. Labor shortages are also creating challenges for food manufacturers, who are now increasingly turning to automation to help ensure continuous and efficient production.

Two big trends in the C&R industry may increasingly influence M&A activity going forward. The first is a focus on health which has seen brands start to enhance the nutrition of packaged and frozen food products. The vegan category was particularly hot with around 60 deals inked in 2023. Sustainability will also likely remain a hot topic as the pressure to decarbonize picks up.

Food retail

Technology and scale investments drive activity in 2024

The dealmakers left the dinner table in 2023. M&A activity in the food retail sector was down 15 percent year-over-year. Value was down by a whopping 4 percent to just US$22 billion. However, it should be noted that 2022 was already a correction year for deals after record breaking deal activity in 2021; current deal volume and value are now close to where they were in 2020.[12]

Interestingly, private equity saw a significant uptick in activity in the sector, with deal volume rising 27 percent versus 2022, primarily focused on casual dining. In fact, casual dining was the most active sub-sector for dealmakers with more than 400 deals conducted in the year — driven largely by low valuations.

With inflation remaining relatively high and disposable income at recent lows, many investors are carefully watching how consumers sentiment impacts the sector. Restaurants in key markets such as the UK, US and Canada saw retail activity cut in half as purchasing power decreased and consumers shifted away from restaurants. A multitude of options in food retail is also spreading consumer spend more thinly.

As such, KPMG professionals expect to see continued deal activity as larger players look to consolidate their footprints and grow into new markets. Carrefour's acquisition of Cora and Match assets from Louis Delhaize, for example, gives Carrefour a stronger presence in Eastern and Northern France. On the other end of spectrum, Casino, another France-based food retailer, has been undergoing restructuring and is expected to sell some of its hypermarkets and supermarkets.

We may also see continued activity on the technology side — particularly in Asia. Walmart, for example, has made 10 deals over the past three years in India alone, mostly to capture technological capabilities. Also, Nestlé ventured into food delivery again through its acquisition of Wonder Group for US$100 million, suggesting increased confidence in the sector.

[12] (29) Food & Grocery Retail Market Size In 2023 : Forecasting Share and Scope for 2023-2030 | LinkedIn

Home and personal care

Dealmaking activity remains resilient into 2024

Valuations are up but volumes remain steady. Largely driven by demand for personal care assets, the home and personal care deal market remained fairly resilient in 2023. Analysts expect strong growth in many segments over the next few years; the sexual wellness market is forecast to grow by almost 10 percent per year to 2028,[13] cosmetics are expected to grow by 5.7 percent annually, home care by 4.7 percent and personal care by 3.3 percent.

Average global deal multiples in the beauty and wellness segment hit 16x earnings over 2022—23, outperforming the S&P 500 average of 14x. And these types of valuations are expected to remain into 2024, even as deal volume shrinks somewhat due to continued economic uncertainty.

The sector is set to experience growth across various segments, influenced by technological advancements and strategic realignments. While the growth prospects are impressive, home and personal care companies will need to deal with a number of urgent risks going forward. Labor costs are rising, eroding profitability and reducing business agility. Supply chain disruptions — while largely improved — continue to influence prices and availability. Intense competition in the sector is making it difficult for new entrants to get a foothold.

However, there are a number of hot spots that could drive continued dealmaking activity into 2024. As large FMCG conglomerates continue to refine their portfolios, we will likely see the disposal of some attractive businesses. Unilever, for example, is considering selling Elida Beauty to a PE in its pursuit to dispose non-core personal care and beauty brands.[14]

With consumers looking for personalization and convenience, deals that improve players' omnichannel capabilities and experience are expected. AI is predicted to be behind 95 percent of customer interactions in the next two years which should drive interest in assets that deliver or enable emerging technologies.

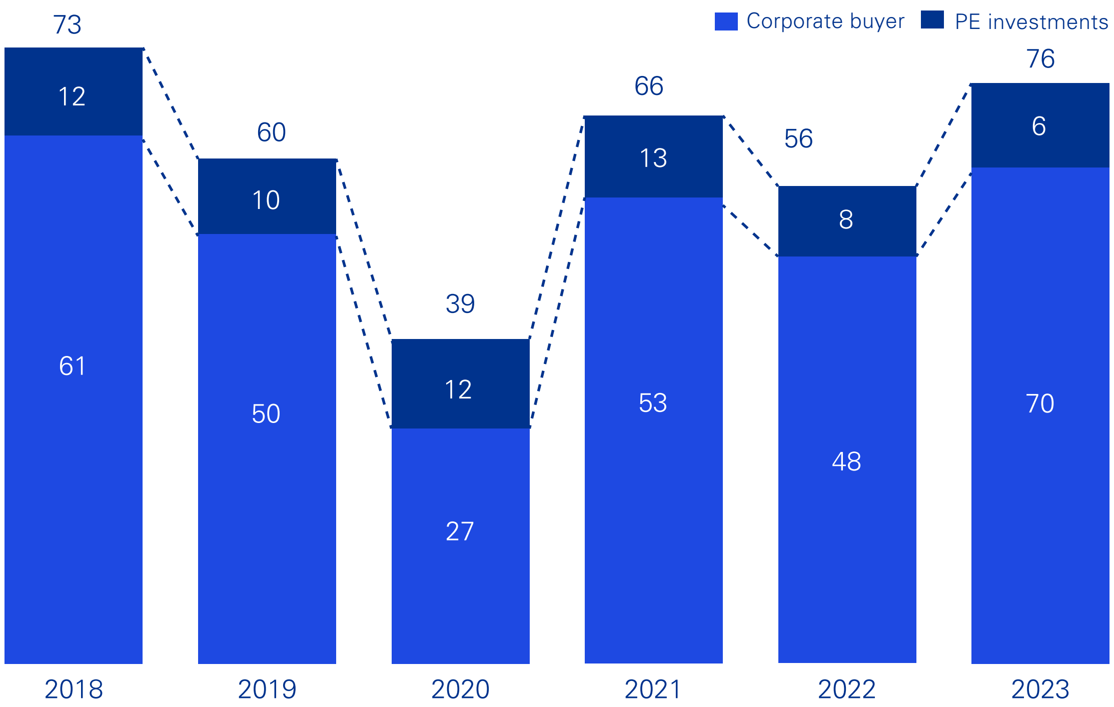
Analysts expect **strong growth in many segments** over the next few years; the **sexual wellness** market is forecast to grow by almost 10 percent per year to 2028, **cosmetics** are expected to grow by 5.7 percent annually, **home care** by 4.7 percent and **personal care** by 3.3 percent.

13. Sexual Wellness Market Size, Share, Growth | 2024 to 2029 (marketdataforecast.com)
14. Unilever to sell Elida Beauty to Yellow Wood Partners | Unilever

Luxury goods

A bubbly deal market remains buoyant

Global Luxury — M&A Volume



Source: Refinitiv, accessed on 16 Jan 2024

Consumers in China and America kept the luxury market growing through 2023. Indeed, despite a fallback in demand due to weaker discretionary spending and massive macroeconomic uncertainty triggered by socioeconomic and geopolitical disruption, analysts expect the market to grow by 3.4 percent per year to reach US$355 billion in size by 2028.

M&A activity has been frothy. Deal volume in 2023 rose by around 30 percent with 80 deals announced in 2023. A number of deals — such as Tapestry's acquisition of Capri Holdings (parent of Versace and Michael Kors) — were designed to consolidate top brands to drive scale and enhance competitive power.

However, a decline in earnings in the third quarter (Kering, owner of Gucci, Balenciaga and other luxury brands, reported a 9 percent drop in sales in the quarter) might suggest a slowdown in industry growth. With China accounting for around 22 percent of industry sales, all eyes will be on that market's economy in 2024.[15]

In this environment, many luxury brands are looking for opportunities to enhance profitability. Some are considering how they might optimize their order and delivery processes to improve the customer experience and reduce costs. Reducing losses, for example by better managing counterfeit returns, will be key. Most are also looking at their supply chain to see how they can better respond to ESG, regulatory and technology pressures.

On the growth side, luxury brands are seeking to innovate and grow in their markets by exploring new revenue models and channels. At the same time, partnerships and consolidation in many markets are expected as players search for even small-size luxury brands with distinct propositions (LVMH has made 13 such acquisitions in Mainland Europe and US to reach a diverse range of customers). The secondhand market is expected to grow considerable, accounting for up to 20 percent of revenues by 2030. Expect to see more deals as leaders emerge in these growing segments.

[15] https://www.forbes.com/sites/pamdanziger/2023/11/26/the-resilience-of-luxury-brands-to-be-tested-in-2024/?sh=12e1fe165f4b

Non-food retail

Deal volumes fall as dealmakers take pause

While global non-food retail markets enjoyed considerable growth over the past few years, deal activity in the sector is now slowing as economic uncertainty prevails. Deal volume contracted by around 10 percent in 2023 (to around 440 deals). Apparel and accessory retailers saw the most activity (with 154 deals) yet here, too, volume was down about 10 percent versus 2022.

Economic uncertainty is being compounded by a number of risks and challenges in the sector. Regulatory complexities are making some investors nervous as retailers are asked to digest a range of new regulatory requirements on product safety, labeling, packaging and import/export restrictions. ESG considerations (as set by both regulators and society) are raising a number of red flags for investors, particularly around the apparel segment. Non-compliance can be costly, time-consuming and detrimental to brands.

At the same time, intense competition is creating pricing pressures as incumbents and new entrants fight for market share, pushing down prices and thinning profit margins. That is making potential investors take pause.

There is also growing pressure to reduce waste — both due to sustainability concerns and efficiency requirements. Our conversations suggest that strategic investors are looking at metrics like unsold inventory (which currently accounts for US$4.3 billion or about 3 percent of global turnover) when valuing target acquisitions.[16]

Regulatory complexities are making some investors nervous as **retailers** are asked to digest a range of new regulatory requirements on **product safety**, labeling, packaging and import/export restrictions.

[16] World Market for Luxury Goods: Green Initiatives and Social Responsibility have Reached a Critical Breaking Point (yahoo.com)

Online retail

Direct-to-consumer comes under pressure as deal making plummets

With inflation rising and consumer discretionary spending constricted, investors kept on the sidelines in the online retail space. Global deal volume fell by around 50 percent in 2023. Private equity participation fell by 60 percent. Valuations plummeted. And a number of failures were announced, particularly in the D2C space (such as SmileDirectClub, which was once valued at more than US$8.9 billion).[17]

That being said, it is clear that online retail remains a growth sector. The global market is expected to grow to US$7 trillion in the next two years, driven by the increasing popularity of mobile shopping and subscription services. It is expected that AI and emerging retail technologies will help boost the market further as digital and physical become more integrated and personalized.

The economic trends will remain challenging this year. However, some online retailers are expected to invest in new technologies in order to make the business more profitable overall. Some are exploring how automated micro-fulfillment centers could help them more efficiently close the final mile. We are also seeing online retailers use machine learning, AI and risk-scoring analysis to spot fraud (global fraud losses reached US$48 billion in 2023).[18]

Over the coming year, KPMG professionals expect to see three trends start to influence dealmaking in the sector.

Bifurcation of D2Cs

Success in the D2C space requires good unit economics, strong differentiation, low customer acquisition costs and access to great talent. Those that demonstrate all of these are likely to see valuations rise. Those that do not risk failure.

Building omnichannel

With average conversion rates of under 3 percent, digital retailers are expanding into new channels in order to increase their customer touchpoints and drive sales. Increasing deal activity is expected around assets that deliver offline presence in particular.

Sustainable packaging partners

With consumers increasingly willing to pay a premium for sustainable products with less packaging, some dealmaking activity is expected as industry players look for packaging partners that deliver sustainability and differentiation.

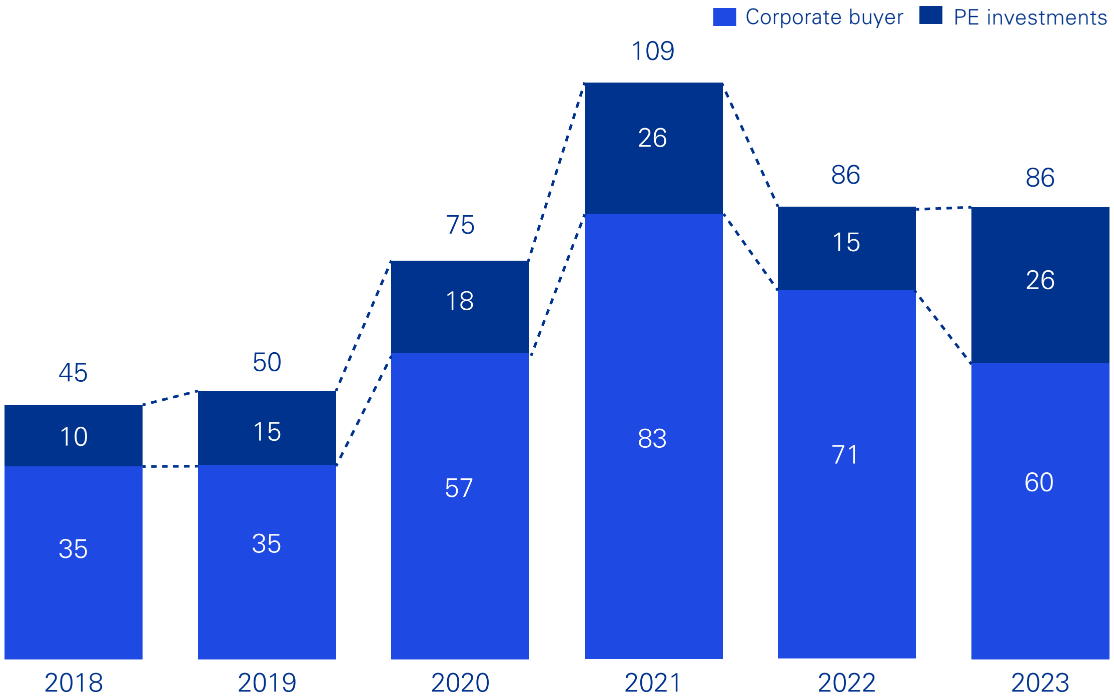
17. Once high-flying SmileDirectClub, valued at $8.9 billion just 4 years ago, to shut down after last-minute push to save it collapses | Fortune

18. eCommerce Losses to Online Payment Fraud to Exceed $48 Billion Globally in 2023 | Press (juniperresearch.com)

Pet care

Building end-to-end pet propositions

Global pet care — M&A volume



Source: Refinitiv, accessed on 16 Jan 2024

Price inflation has taken a bite out of pet sector margins. High raw material costs have driven input costs up by 18 percent and brands are reaching the end of their customers' tolerance for price increases. Between 2022 and 2023, unit prices across the pet care department rose 17.6 percent — pet food increased by 21.8 percent, pet supplies by 9.8 percent and pet treatments by 3.9 percent. As a result, sales in pet food grew 17 percent (by revenue).

Yet margins are tightening. Indeed, KPMG research shows that public company players saw their EBITDA dip slightly (0.17 percentage points) in 2023 as topline growth slowed.

Even so, M&A volumes remained steady in 2023 with more than 80 deals announced. Private equity made up a quarter of all deals and nearly half of all deals were conducted in the US or UK.

Interestingly, venture capital seemed particularly active in developing markets. Some investors with higher risk appetite have been looking at 'second tier' pet markets. The largest markets are the US (with 155 million dogs and cats) and China (with 141 million). Now investors are looking at next tier of markets like Brazil (with 78 million pets), Mexico (46 million) and India (20 million).[19]

Two other trends seem set to influence activity in this sector. The first is the shift towards end-to-end care. Mars Inc, for example, one of the world's largest pet food producers, acquired five veterinary services assets in 2023. The second is a trend towards premiumization and fresh food which is expected to grow to a US$6 billion market in the US by 2030.

[19] https://www.worldbank.org/en/country/brazil/overview

Key contributors

Joshua Martin
Global Deal Advisory Lead, Consumer & Retail

Amit Bhandari

Barema Bocoum

Chiaki Tani

Fernando Fernandes

Ian ProudFoot

Ijeoma Emezie-Ezigbo

James Hindle

Jose Antonio

Julian Parsons

Lorenzo Brusa

Louis Allers

Mark Harrison

Mayanka Sharma

Michael Habboush

Nick Wansbury

Nicola Longfield

Robert Baxter

Thimo Stoll

Willi Sun

Yuji Ito

Zarzalejos Buesa

Contacts

James Hindle
Partner, Transaction Services
KPMG Australia
jhindle@kpmg.com.au

Mark Harrison
Partner
KPMG China
mark.harrison@kpmg.com

Willi Sun
Head of Advisory, Consumer & Retail
KPMG China
willi.sun@kpmg.com

Barema Bocoum
EMA Head of Turnaround and Restructuring
KPMG in France
bbocoum@kpmg.fr

Julian Parsons
Partner, Corporate Finance, M&A
KPMG in France
jeparsons@kpmg.fr

Yuji Ito
Partner, Retail Sector Leader, Consumer & Retail
KPMG in Japan
yuji.ito@jp.kpmg.com

Thimo Stoll
Partner, Deal Advisory, Strategy, Head of ESG
KPMG in Germany
tstoll@kpmg.com

Ian Proudfoot
Global Head of Agribusiness, Partner, Audit
KPMG in New Zealand
iproudfoot@kpmg.co.nz

Ijeoma Emezie-Ezigbo
Partner & Head Transaction Services
KPMG in Nigeria
ijeoma.emezie-ezigbo@ng.kpmg.com

Jose A. Zarzalejos
Partner, Corporate Finance
KPMG in Spain
jzarzalejos@kpmg.es

Joshua Martin
Global Deal Advisory Lead, Consumer & Retail
KPMG in Switzerland
jmartin12@kpmg.com

Robert Baxter
Partner, UK Head of Corporate Finance
KPMG in the UK
robert.baxter@kpmg.co.uk

Nicola Longfield
Partner, Global Deal Advisory Consumer & Retail
KPMG in the UK
nicola.longfield@kpmg.co.uk

Nick Wansbury
Partner, Consumer & Retail Deal Advisory
KPMG in the UK
nick.wansbury@kpmg.co.uk

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com

Designed by Evalueserve.
Publication name: Growing confidence: Consumer and Retail M&A Outlook 2024 | Publication number: 139346-G | Publication date: May 2024