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North American Consumer Quarterly Market Report Q3 – 2023



*All dollar values in this report are USD, except where noted CAD.

Q3-2023 Macroeconomic Highlights

Interest Rate Hikes

- On July 6th, the US Federal Reserve (Fed) announced yet another 25 bps rate hike aimed at curbing persistent inflation, bringing the Federal Funds rate to 5.25% to 5.5%, the highest level in 22 years. Labor market conditions ultimately led the Fed to institute yet another rate hike, with wage growth continuing to raise inflationary concerns.
- At their next meeting on September 19th, the Fed announced its decision to pause its hiking campaign following the release of encouraging inflation data. However, the Fed did not rule out the possibility of one more interest rate increase before the end of 2023.
- Like their American counterparts, the Bank of Canada (BoC) increased its policy interest rate by 25 bps on July 12th, bringing the target overnight rate to 5%. While global inflation rates were showing signs of decline, persistent consumer demand and wage growth had resulted in inflated service costs.
- In its subsequent announcement on September 6th, the BoC chose to leave its target overnight rate unchanged, with the BoC maintaining its stance on quantitative tightening, citing sticky measures of core inflation.
- The BoC also announced that Canada has now entered a period of weaker growth, which, in their view, is needed to bring the economy back to supply-demand equilibrium.

Inflation

- In July, Canadian CPI rose 3.3% year-over-year, following a 2.8% increase in June. The increase was largely attributed to increased gas prices. However, Canadian inflation accelerated to 4.0% in August, once again due to higher gasoline prices, as well as increased rental prices.
- In September, Canadian CPI rose 3.8%, with several measures of core inflation showing signs of improvement. The deceleration in inflation was led primarily by lower prices for durable goods, groceries, travel-related services, and gasoline prices.
- Meanwhile, US CPI rose 3.2% in July, below analyst expectations. Inflation then accelerated to 3.7% in August due to increased gasoline and property rental prices.
- US inflation remained unchanged in September, with lower energy prices the primary reason for CPI stability.
- Despite encouraging signs that inflation is being contained, the Fed does not expect to achieve its goal of returning inflation to its 2% target before 2026.








Consumer Spending

- Canadian consumer spending continued to falter as Q3 wound down, with retail sales and inflation-adjusted retail spending declining in September. Spending on restaurants, travel, and hospitality fell for a second consecutive month as debt servicing costs, as well as the costs of essential goods, continued to rise. Spending on discretionary items has largely dissipated since the summer peak.
- While total spending rates have dropped, spending on gasoline, vehicles, and groceries has risen, primarily due to higher prices.
- By many measures, Canada's consumer momentum has slowed as high interest rates begin to have their intended impact.
- Unlike their Canadian counterparts, US consumer spending remained robust throughout the entirety of Q3, with consumer spending rising 0.7% in September. Increased spending was observed across several categories, including medication, food & beverage, and recreational goods. Spending on services, including travel, housing and utilities, and healthcare rose by 0.8%.
- Despite persistent levels of US consumer spending, many expect expenditures to drop in Q4 and into the new year as disposable household becomes increasingly eroded by debt repayment and a higher overall cost of living.



Q3-2023 M&A Highlights

Notable North American Consumer M&A Transactions

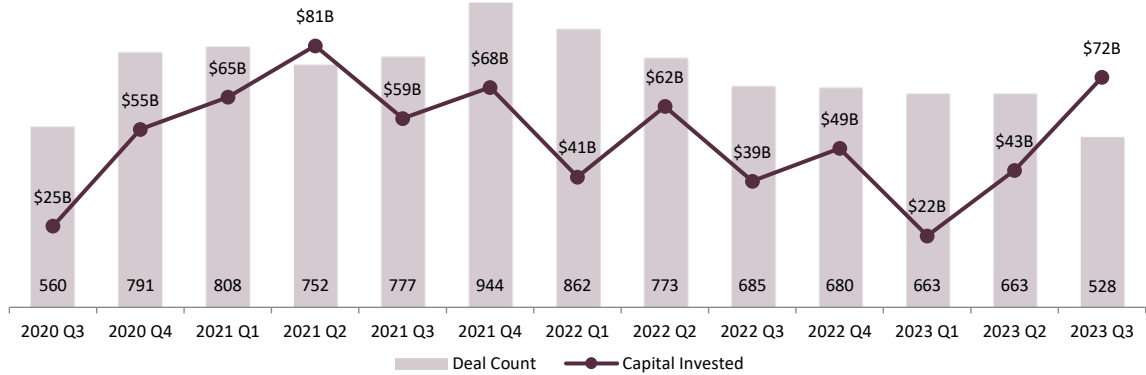
 <p>has been acquired by</p> 	<ul style="list-style-type: none"> • Transaction Value: \$21.0B • EV/Revenue: 7.0x • EV/EBITDA: 26.6x • The WWE is a global entertainment company featuring scripted professional wrestling performances. • This transaction will allow Endeavor to deliver significant additional value to shareholders by bringing UFC and WWE together.
 <p>has been acquired by</p> 	<ul style="list-style-type: none"> • Transaction Value: \$9.6B • Undisclosed Multiples • Subway is an American multinational fast-food restaurant that serves sandwiches, wraps, salads, and more. • Roark Capital has a lot of experience and expertise when it comes to the restaurant and franchise industry. Roark Capital believes that Subway will be a great addition to their portfolio due to the chain's global presence and brand reach.
<p>CAPRI</p> <p>has been acquired by</p> 	<ul style="list-style-type: none"> • Transaction Value: \$8.5B • EV/Revenue: 1.6x • EV/EBITDA: 12.5x • Capri Holdings is global fashion luxury group comprised of Michael Kors, Versace, and Jimmy Choo. • The combined entity will be better positioned to grow sales internationally and collaborate on the creative front. It will also look to more closely rival LVMH and Kering.
 <p>has been acquired by</p>  <p>THE J.M. SMUCKER Co</p>	<ul style="list-style-type: none"> • Transaction Value: \$5.6B • EV/Revenue: 4.1x • EV/EBITDA: 17.4x • Hostess Brands is a sweet snacks company that produces and distributes Twinkies and other baked goods. • The acquisition comes amid a wave of transactions in the US packaged foods segment as companies seek to expand their brand portfolios. Adding Hostess expands Smucker's portfolio in the snacking vertical.

Capital Invested in Q3	Transactions in Q3	Median EV/EBITDA
\$72.1B	528	12.8x

Top Consumer Transactions in Q3-2023

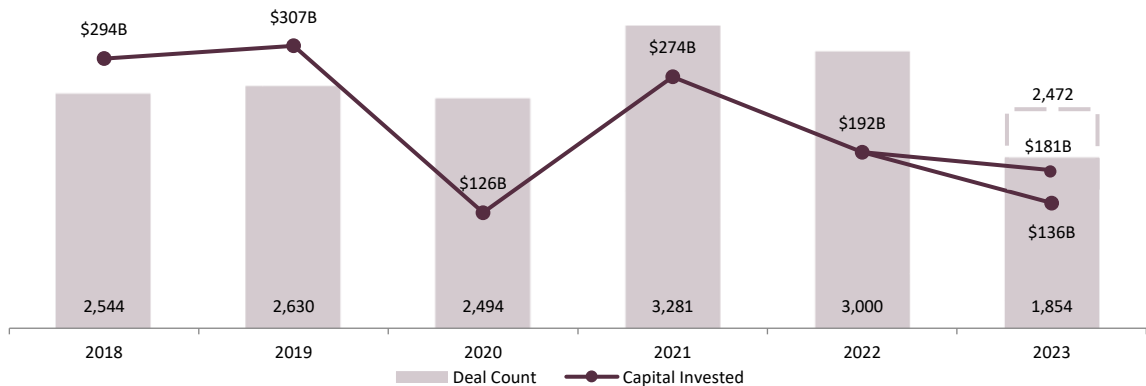
Date	Target	Acquirer	EV	EV/EBITDA	Sector
Sep-23		ENDEAVOR	\$21.0B	26.6x	Sports & Entertainment
Aug-23		ROARK	\$9.6B	Undisclosed	Hospitality
Jul-23	CAPRI	tapestry	\$8.5B	12.5x	Apparel
Sep-23		Josh Harris	\$6.6B	Undisclosed	Sports & Entertainment
Sep-23			\$5.6B	17.4x	Food & Beverage
Aug-23			\$3.9B	Undisclosed	Food & Beverage
Aug-23	sovos brands	<i>Campbell's</i>	\$2.7B	47.0x	Food & Beverage
Aug-23			\$2.0B	2.7x	Retail
Sep-23		KKR	\$1.6B	Undisclosed	Publishing
Aug-23			\$1.4B	Undisclosed	Pet Products

Quarterly Deal Volume & Capital Invested



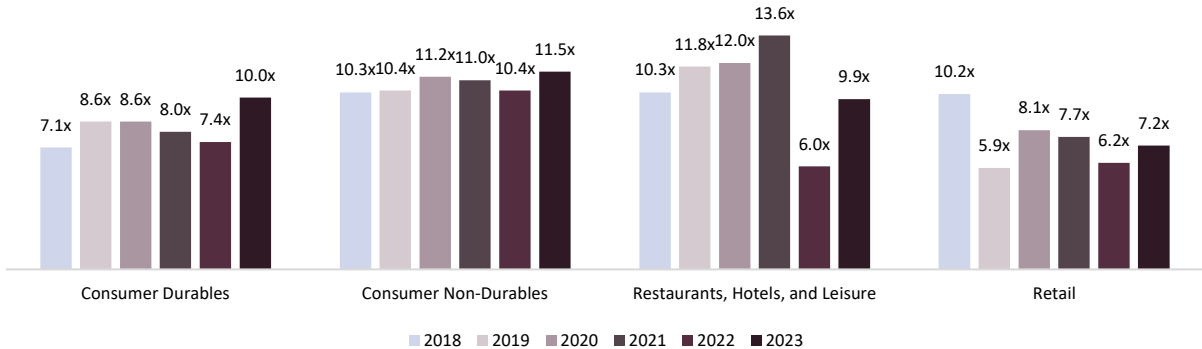
- 2023 has seen a consistent uptick in M&A activity throughout the consumer sector, with Q3 seeing more capital invested than the year's previous two quarters combined.
- While activity at the upper end of the market has been impacted so far this year by interest rates and increased antitrust scrutiny, Q3 saw an uptick in large transactions, with the quarter seeing four deals larger than \$5B.
- Strategic acquirers have continued to drive sector activity. Corporate-backed transactions made up ~70% of the quarter's total transactions, as well as six of the quarter's largest.
- The food & beverage subsector once again led the way in terms of activity and valuations, with strategics demonstrating a willingness to pay a premium for complementary offerings.

Yearly M&A Deal Volume & Capital Invested



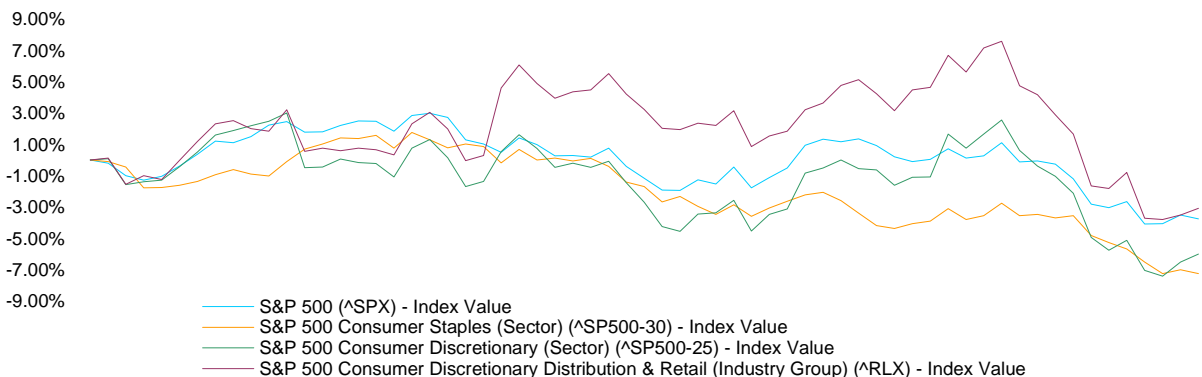
- If the current rate of dealmaking activity is maintained in Q4, 2023 will see a total of \$181B deployed across 2,472 consumer M&A transactions.
- Activity throughout the sector has largely stalled so far this year. Apart from the aforementioned factors, inflation has resulted in margin compression, resulting in less liquidity to fund transactions.
- While inflation has proven stickier than initially anticipated, the impact of fiscal tightening policies are beginning to take hold, with input costs throughout several consumer subsectors beginning to decline. This has resulted in renewed acquisition activity on the part of large strategics.
- Despite the recent uptick in activity, there continues to be a flight to quality, with acquirers favoring profitability versus growth at all costs.

Median EBITDA Multiples by Subsector



- Multiples throughout various consumer subsectors have improved YTD as a result of persistent consumer spending and increased M&A activity.
- The continued rise of consumer non-durables valuation multiples can be attributed primarily to the strength of the food & beverage subsector. Companies in the space continue to transact at a premium relative to the rest of the sector, with quality assets routinely trading in the 10-12x EBITDA range.
- Multiples throughout the restaurants, hotels, and leisure subsegment have continued to rebound. Consumer spending on travel and hospitality increased sharply in the last few months. However, subsector spending is expected to decrease in the coming quarters as pandemic-era excess savings begin to be eroded by increased costs.

Public Market Indexes: S&P 500 vs. Market Indexes



- The S&P 500 fell 3.8% in Q3, with consumer indices, including the Consumer Discretionary Distribution & Retail, Consumer Staples, and Consumer Discretionary indices posting losses of -3.1%, -7.3% and -6%, respectively.
- The Consumer Staples index has been the second-worst performing sector of the S&P 500 so far this year. Rising bond yields and uncertainty about the future state of US consumer spending have had a significant impact on the index's performance. Other factors, including rising credit card delinquency rates, have resulted in a bleak outlook for the index.
- Consumer Discretionary stocks have also felt the impact of a volatile inflation landscape. Their performance for the rest of the year will likely depend on further action taken by the Fed.

Q3-2023 Consumer Subsector M&A Trends

- **Food & Beverage:** The food & beverage industry continued to perform well in Q3-2023. Easing labor market conditions, as well as the cost disinflation of several inputs, including eggs and some processed meats, has led to an optimistic sector outlook. Lower input costs has freed some acquirers to once again pursue more aggressive inorganic growth strategies. Successful food & beverage companies have been able to adapt to changing consumer preferences towards value-oriented products, with the processed and ready-to-eat meal categories exhibiting slowing sales. As a result of the renewed acquisition push, valuations have remained robust, with the subsector's median EBITDA multiple expanding to 10.4x YTD, up from 7.4x in 2022. Overall, strategics have continued to drive consolidation activity, comprising 67.1% of YTD transactions. Taking advantage of economies of scale, product portfolio optimization, and gaining market share have been key motivations driving acquisition strategies. Private equity-backed activity has consisted primarily of add-ons, representing 24% of all YTD activity. Only 9.1% of YTD transaction activity has represented private equity platform investments.
- **Pet Products:** The pet products sector maintained its momentum from the second quarter, with Q3-2023 seeing robust levels of M&A activity. As has been the case so far this year, private equity-backed deals represented most of the sector activity, comprising 65% of Q3 deals. Providers of premium pet products and pet services were once again the most popular acquisition targets. The sector's strong quarterly performance was capped off by PAI Partner's \$1.4B acquisition of premium pet food manufacturer Alphia on September 29th.
- **E-commerce:** Despite high inflation, US consumers have continued to spend, with e-commerce companies benefitting from persistent levels of demand. In July, Amazon's Prime Day resulted in \$13B in total sales, the most earned in Amazon history. Overall, Amazon's revenue from its core e-commerce segment grew 7% year-over-year. While consolidation activity within the e-commerce vertical has slowed from its peak in 2021, there continued to be a healthy level of deal activity throughout the subsector, including the merger of Shopify Plus platform service partners Half Helix and Tomorrow. The transaction created the sector's largest independent Shopify service partner.
- **Travel & Hospitality:** While labor shortages, supply chain constraints, and increased operating costs continued to pose challenges to the sector, average room rates and demand throughout the hospitality sector, particularly in the US, remained strong. Despite sector M&A activity falling nearly 33% so far this year, several large transactions were announced in Q3, including Qatar Investment Authority's acquisition of New York's Park Lane Hotel for \$623M, as well as Liberty Media's \$282M acquisition of hospitality services firm QuintEvents.
- **Retail:** The retail sector saw persistent levels of M&A activity throughout Q3 as North American consumer spending remained robust. Apparel retailers, convenience store chains, and specialty retailers were the most popular acquisition targets, led by Tapestry's \$8.5B acquisition of Capri, FJ Management's \$2B acquisition of Kum & Go, and Authentic Brand Group's \$1.3B acquisition of Boardriders. Despite strong recent sector earnings, companies operating within the subsegment may be negatively impacted in the coming quarters as experts anticipate that excess pandemic-era savings will continue to be eroded by an overall increased cost of living. Household disposable income is also expected to become increasingly tied up in debt repayments related to student loans and mortgages. This may adversely impact the sector's overall financial health and, as a result, levels of M&A activity.

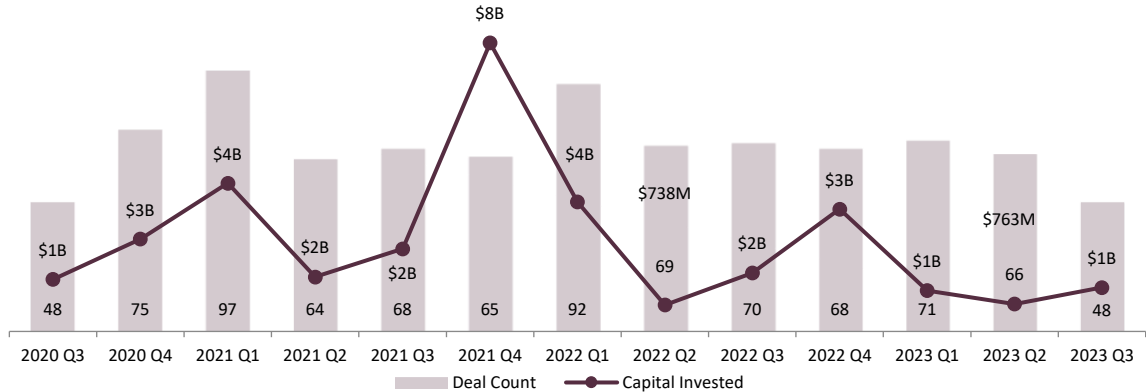
Notable North American Growth Equity Transactions

Date	Investee	Investor	Size	Headquarters	Sector
Sep-23	VOYAGES	ARES	\$550.0M	Plantation, FL	Travel
Jul-23	MONUMENTAL SPORTS & ENTERTAINMENT	قمار قطر للاستثمار QATAR INVESTMENT AUTHORITY	\$202.5M	Washington, DC	Sports & Entertainment
Aug-23	CAMP PICKLE	GOOD ALPHA INDUSTRIES	\$200.0M	Bentonville, AR	Restaurants
Aug-23	PFL PROFESSIONAL FIGHTERS LEAGUE	SI SPORTS INVESTMENTS	\$100.0M	New York, NY	Sports & Entertainment

Notable North American VC Transactions

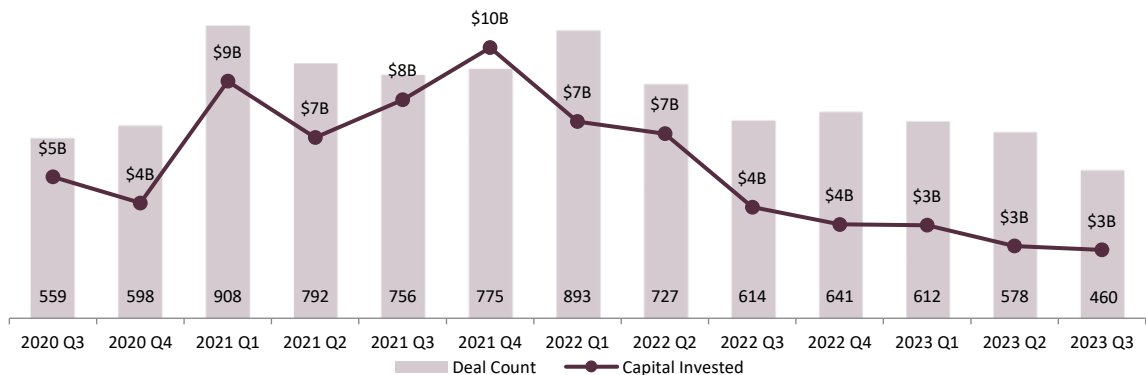
Date	Investee	Investor	Size	Stage	Sector
Jul-23	SKIMS	WELLINGTON MANAGEMENT®	\$329.6M	Later Stage	Apparel
Sep-23	eat meati™	RISE OF THE REST a revolution fund	\$220.0M	Later Stage	Food
Jul-23	bobbie.	PowerPlant PARTNERS	\$70.0M	Later Stage	Food
Sep-23	mill	Prelude Ventures	\$70.0M	Later Stage	Appliances

Growth Equity Investment



- Levels of growth equity investment activity in the consumer sector saw a modest quarter-over-quarter increase. The ~\$1B invested is largely in-line with historical averages.
- As was the case in Q2, sports & entertainment growth equity investments dominated headlines, with Qatar Investment Authority’s \$202.5M investment in Monumental Sports & Entertainment, as well as SJR Sports Investments’ \$100.0M in Professional Fighters League among the quarter’s largest growth equity transactions.
- There continues to be significant demand for growth equity funding, resulting in improved pricing and terms for investors. Many investors have been able to benefit from structures available to early-stage investors, including liquidation preferences and return hurdles.

VC Investment



- Like the technology sector, levels of VC investment in the consumer sector has stabilized, with the last three quarters each seeing \$3B in capital invested.
- Better-for-you and plant-based foods continued to be popular targets for VC investors, with eat meati’s and Bobbie’s rounds consisting of two of the quarter’s largest fundraises.
- Seed and early-stage funding throughout the consumer sector continued to slow. Investors are opting for a risk averse approach, with a preference for investing in later stage businesses with more proven business models.
- Improvements in IPO market conditions have once again made later stage investments more appealing, with late stage funding increasing by 10% year-over-year and 30% quarter-over-quarter.

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