IJW

North American Consumer

Yearly Market Update

2023

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

Executive Summary

- From a macroeconomic perspective, 2023 was a difficult year. In response to stubbornly high inflation, the Federal Reserve (Fed) raised interest rates four times, bringing the Fed Funds rate to a peak of 5.25-5.5%. Similarly, the Bank of Canada (BoC) instituted three hikes throughout the year, bringing the overnight lending rate to 5%. The Fed and BoC have held rates steady since July, with both employing a "wait and see" approach in order to balance inflation reduction efforts with sustained economic growth.
- The complicated macroeconomic situation had negative impacts on consumer M&A activity throughout 2023. Despite several large transactions being announced, including Endeavor's $21.0B acquisition of WWE, and the $8.0B merger between Six Flags and Cedar Fair, consumer M&A activity dropped in 2023, with capital invested falling ~15% year-over-year (YoY). M&A activity peaked in Q3, with the quarter seeing 558 transactions and $72B in capital invested. The fourth quarter also saw improved activity relative to the first two quarters, signaling that acquirers have become more comfortable executing transactions in a high-rate environment and that the financial performance of some consumer-facing businesses has begun to improve.
- Strategic M&A activity decreased, with capital invested as part of these transactions dropping ~28% YoY. Many strategic acquirers remained on the sidelines throughout 2023 as higher input costs put their margins under pressure, resulting in less ammunition to execute transactions.
- There continues to be a significant shift among strategic acquirers, as well as some private equity buyers with large holdings in the space, to selectively divest of non-core, underperforming assets in an effort to streamline their portfolios and position them for future growth. This has led to a flurry of acquisitions of innovative businesses within the mid-market. This trend has been particularly prevalent within the food & beverage subsegment, with better-for-you brands garnering significant interest. Industry incumbents, including the likes of Mondelez, have engaged in M&A in order to shift their portfolios away from lower-growth verticals, exemplified by the divestiture of its chewing gum business to Perfetti Van Melle in October 2023 for $1.4B.
- The high interest rate environment led to lower private equity-backed activity, both from a buyout and exit perspective, throughout 2023. ~60% of private equity-backed activity came from four transactions, without which financial sponsor activity would have dropped 32% YoY. The majority of private equity activity within the consumer sector was concentrated within the mid-market, with a keen emphasis on value creation. Private equity exits remained muted throughout the year due to an unattractive exit environment, both from an acquisition and IPO standpoint. However, private equity firms continued to make use of continuation funds, which have become more prevalent in the last 5 years, to return capital to LPs.
- Valuations generally improved throughout 2023 as North American consumers, particularly in the US, continued to spend at record levels despite high inflation and interest rates. However, consumer valuation multiples face an uncertain future. While a soft landing is within reach in the US, consumer spending is likely to normalize in the early months of 2024, which may have an impact on sector earnings.

Source: Capstone Partners, Clarkson Consulting, Kroll, Pitchbook, PwC, S&P Global, Verdict

2023 M&A Highlights

Notable Strategic M&A Transactions

WWE has been acquired by ENDEAVOR	• Transaction Value: **$21.0B** • EV/Revenue: **30.8x** • EV/EBITDA: **117.8x** • 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.
Cedar Fair has merged with SixFlags	• Transaction Value: **$8.0B** • EV/Revenue: **4.5x** • EV/EBITDA: **16.5x** • Cedar Fair is an operator of amusement parks located throughout Canada and the US. • The merger of equals provides the newly created entity with a more robust and diversified offering with 42 parks and 9 resort properties across Canada, the US, and Mexico.
W has been acquired by Josh Harris	• Transaction Value: **$6.5B** • Undisclosed Valuation Multiples • Previously known as the Redskins, the Washington Commanders are a professional football team competing in the NFL. • The deal expands Josh Harris' sports ownership repertoire, which includes the NBA's Philadelphia 76ers, NHL's New Jersey Devils, and the Premier League's Crystal Palace F.C. Reports say Harris' group plans to rebrand the football team post-acquisition.
Hostess BRANDS has been acquired by THE J.M. SMUCKER Co	• Transaction Value: **$5.6B** • EV/Revenue: **4.0x** • EV/EBITDA: **20.3x** • 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 packaged foods segment as companies expand their brand portfolios. Adding Hostess grows Smucker's snacking portfolio.

Capital Invested in 2023	Transactions in 2023	Median EV/EBITDA
$108B	1,639	8.3x

Source: Pitchbook

2023 M&A Highlights

Notable Private Equity M&A Transactions

ALPHIA has been acquired by PAI PARTNERS	• Transaction Value: **$13.6B** • Undisclosed Valuation Multiples • Alphia is a private-label manufacturer of pet food and treats based in Denver, Colorado. • Alphia represents the fifth investment made by PAI Partners in the pet products sector. PAI Partners plans on growing Alphia's footprint within the North American market through both organic and inorganic strategies.

SUBWAY has been acquired by ROARK	• Transaction Value: **$9.6B** • Undisclosed Valuation Multiples • Subway is an American multinational fast-food restaurant that serves sandwiches, wraps, salads, and more. • Roark Capital has significant 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.

NEWLY WEDS FOODS inspiring new tastes has been acquired by REDWOOD	• Transaction Value: **$4.0B** • Undisclosed Valuation Multiples • Newly Weds Foods is the largest producer of customized food coatings in the U.S. • The acquisition is consistent with Redwood Holdings' strategy of acquiring businesses with established management teams and competitive advantages.

weber has been acquired by BDT & COMPANY	• Transaction Value: **$3.7B** • EV/Revenue: **4.9x** • EV/EBITDA: **NM** • Weber is a provider of outdoor cooking products, including charcoal and gas-powered grills, as well as grilling accessories. • Post-acquisition, BDT intends on implementing a long-term growth strategy aimed at growing Weber's footprint within the outdoor cooking products segment.

Capital Invested in 2023	Transactions in 2023	Median EV/EBITDA
$52B	594	8.6x

Source: Pitchbook; *NM refers to non-meaningful

2023 M&A Highlights

Notable Canadian M&A Transactions

LUCASMEYER COSMETICS by IFF has been acquired by CLARIANT	• Transaction Value: **$810.0M** • Undisclosed Valuation Multiples • Based in Quebec City, Lucas Meyer Cosmetics is a manufacturer of over 150 cosmetics and personal care ingredients. The company was a subsidiary of International Flavors & Fragrances. • The two companies share a complimentary customer and product portfolio. The acquisition will also help pivot Clariant's product portfolio towards high-growth, high-margin offerings.
has been acquired by **Michael Andlauer**	• Transaction Value: **$736.8M** • Undisclosed Valuation Multiples • The Ottawa Senators are a Canadian hockey team competing in the NHL. • Michael Andlauer, a previous investor in the Montreal Canadiens, is set to overhaul the club's operations and is set to prioritize the construction of a new arena in closer proximity to downtown Ottawa than its current home in Kanata.
LOWE'S has been acquired by SYCAMORE PARTNERS	• Transaction Value: **$400.0M** • Undisclosed Valuation Multiples • Lowe's Canada operates a chain of hardware, home improvement, and construction supply stores under several banners, including RONA, Lowe's, Reno-Depot, and Dick's Lumber. • Post-transaction, Lowe's Canada will operate as RONA. Sycamore Partners intends to focus on operational improvement and expanding RONA's footprint.
MAV BEAUTY BRANDS has been acquired by NEXUS CAPITAL	• Transaction Value: **$203.2M** • Undisclosed Valuation Multiples • MAV Beauty Brands owns a portfolio of personal care products companies, including Marc Anthony True Professional, Renpure, The Mane Choice, and Cake Beauty, among others. • Post-transaction, Nexus Capital plans on investing in product innovations and expanding MAV's retailer partnership program. MAV will also stand to benefit from a refreshed capital structure.

Capital Invested in 2023	Transactions in 2023	Median EV/EBITDA
$4B	263	NM

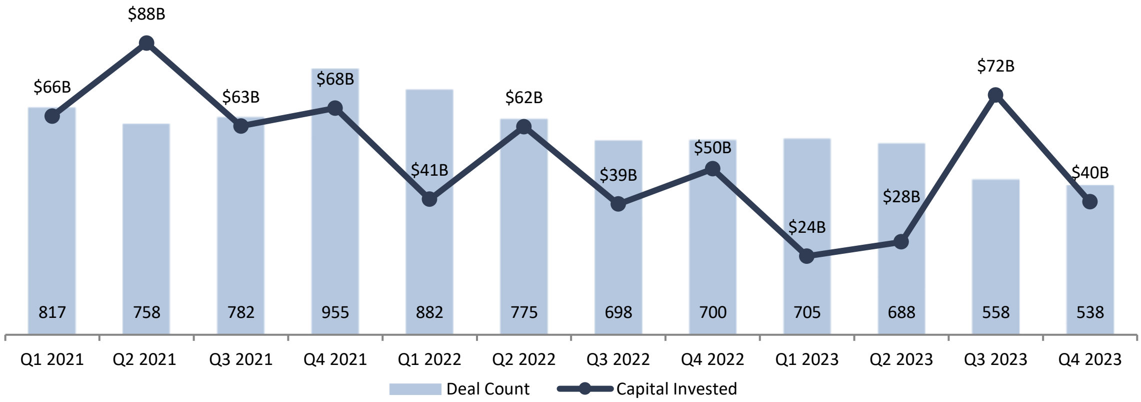
Source: Pitchbook; *NM refers to non-meaningful

Top Consumer Transactions in 2023

Date	Target	Acquirer	Transaction Value	EV/EBITDA	Sector
Sep-23	WWE	ENDEAVOR	$18.0B	117.8x	Entertainment
Sep-23	ALPHIA	PAI PARTNERS	$13.6B	N/A	Pet Products
Aug-23	SUBWAY	ROARK	$9.6B	N/A	Restaurants
Aug-23	tapestry	CAPRI HOLDINGS LIMITED	$8.5B	12.5x	Apparel
Nov-23	Cedar Fair	SixFlags	$8.0B	16.5x	Entertainment
Jul-23	Washington Commanders	Josh Harris	$6.5B	N/A	Sports
Nov-23	Hostess BRANDS	THE J.M. SMUCKER Co	$5.6B	N/A	Food & Beverage
Jun-23	Spectrum Brands	ASSA ABLOY	$4.3B	N/A	Home Hardware
May-23	MATTRESS FIRM	TEMPUR + SEALY	$4.0B	9.3x	Home Furnishings
Dec-23	Newly Weds Foods inspiring new tastes	REDWOOD	$4.0B	N/A	Food & Beverage

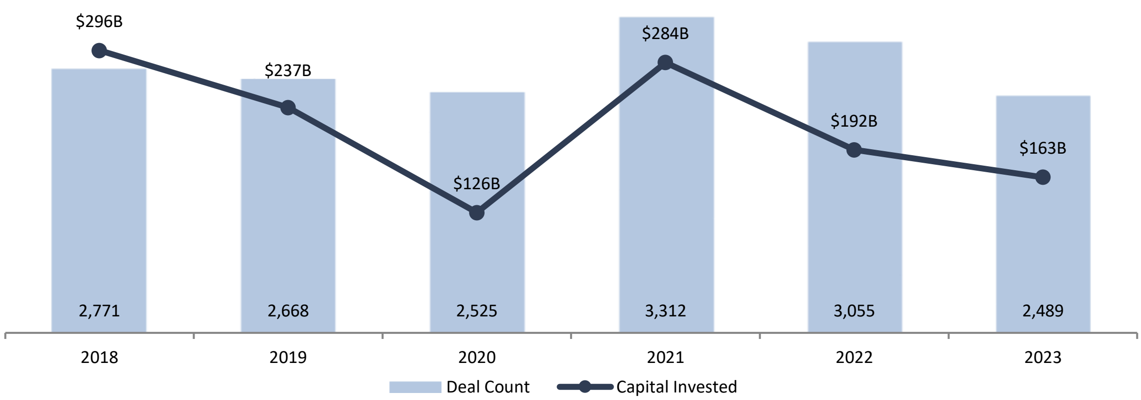
Source: Pitchbook

Quarterly Deal Volume & Capital Invested



- Both deal volume and capital invested remained below historical levels throughout 2023. Activity peaked in Q3, with the WWE-Endeavor and Alphia-PAI deals announced in September.
- The macro landscape presented acquirers with unique challenges. Much of the sales growth throughout 2023 can be attributed to inflation, while many businesses felt their margins squeezed by higher input costs.
- Nevertheless, activity persisted, albeit at a lower pace, as large businesses strive to meet the fragmented needs of consumers and reposition their businesses models through acquisition.
- Barring a spike in activity in Q3, activity improved throughout the year as acquirers, both financial and strategic, became increasingly comfortable in executing transactions in a high-rate environment.

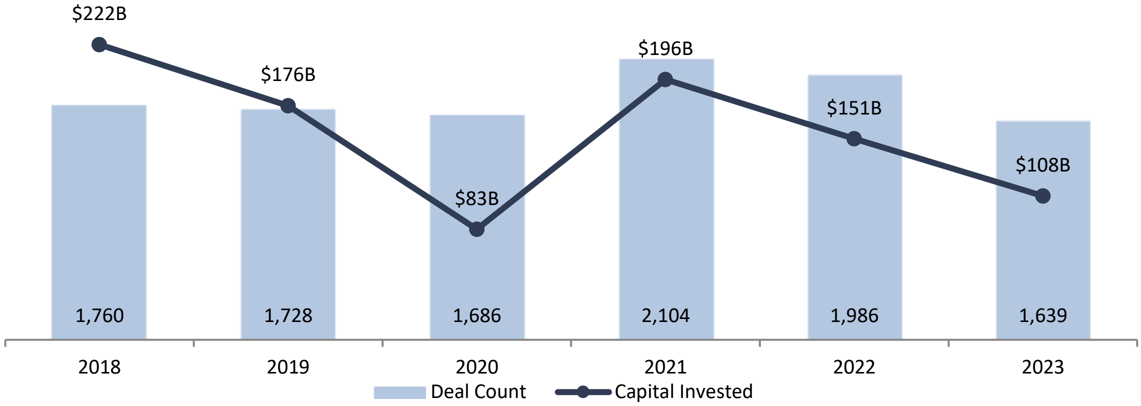
Yearly Deal Volume & Capital Invested



- Despite macroeconomic obstacles, capital invested only dropped ~15% from 2022, while deal volume dropped ~19%.
- While many expect an increase in M&A activity, some acquirers will likely employ a "wait and see" approach in 2024 as they evaluate the impact of recent rate hikes on consumers. This will be particularly true for companies operating within the consumer discretionary segment.
- Throughout 2023, buyer-seller valuation gaps was one of the leading causes of failed transactions. We expect these conditions to improve as acquirers make use of creative structures, including earnouts.
- We expect activity to increase in 2024 due to improved financing conditions and a more stable macro environment.

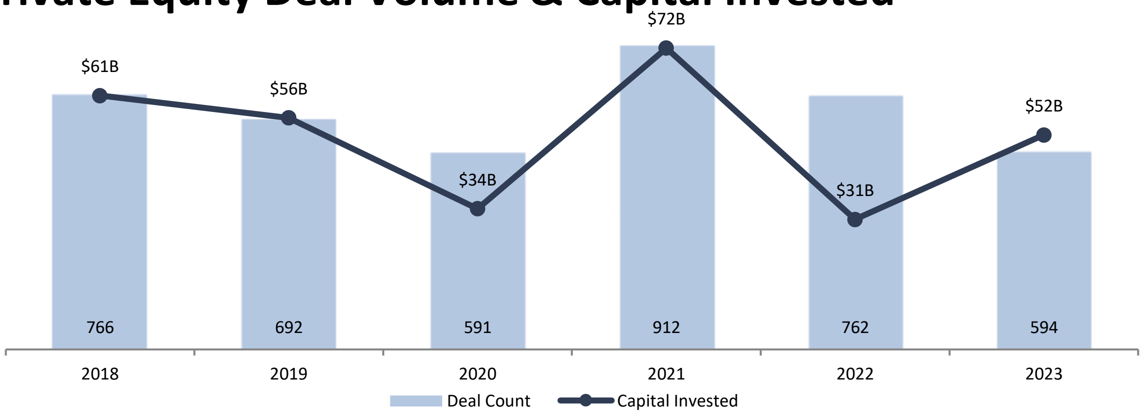
Source: Pitchbook, Bain & Company, PwC, Apollo

Strategic Deal Volume & Capital Invested



- Many strategic acquirers remained on the sidelines throughout 2023 as higher input costs put their margins under pressure, resulting in less ammunition to execute M&A.
- IJW expects divestitures of non-core, underperforming assets to continue for the foreseeable future as companies focus their efforts on high-growth product segments.
- We also anticipate that median transactions sizes will drop in 2024 and beyond as large transactions come under increased regulatory scrutiny, resulting in protracted, and sometimes failed, processes.
- Large transactions are increasingly viewed by boards as an ineffective way of reaching consumers with fragmented preferences. Moving forward, strategics are likely to favor smaller, mid-market acquisitions that allow them to pursue opportunities in niche, high-growth segments.

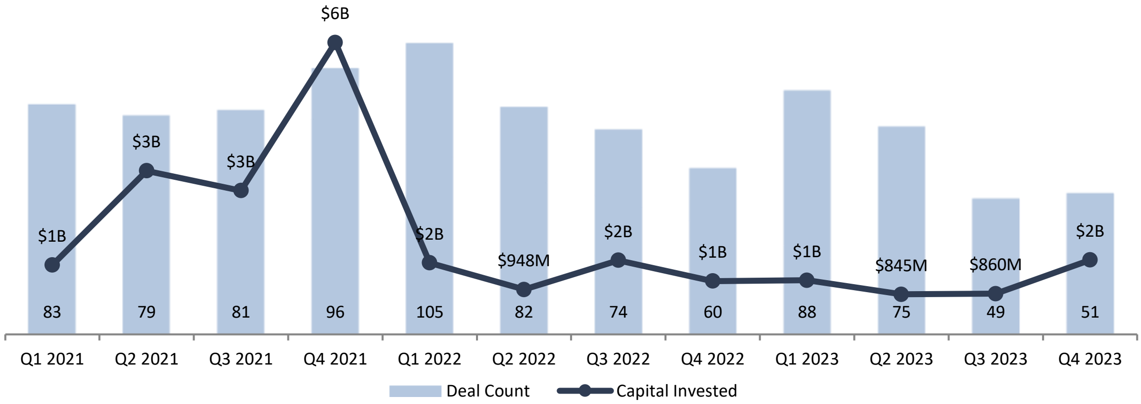
Private Equity Deal Volume & Capital Invested



- Of the $52B invested in the consumer sector in 2023 by private equity, $31B came from four transactions. Therefore, barring those four deals, capital invested in the consumer sector declined ~32%.
- Like in other sectors, the majority of private equity activity was concentrated in the mid-market. Like strategic acquirers, private equity has increasingly been focused on value creation and optimizing underperforming assets, as well as adding high-growth brands to the portfolios of their larger assets.
- Private equity exits within the consumer sector also remained muted in 2023.
- Moving forward, we expect a more stable macroeconomic situation, as well as a more favorable interest rate environment, to result in a significant uptick in private equity activity.

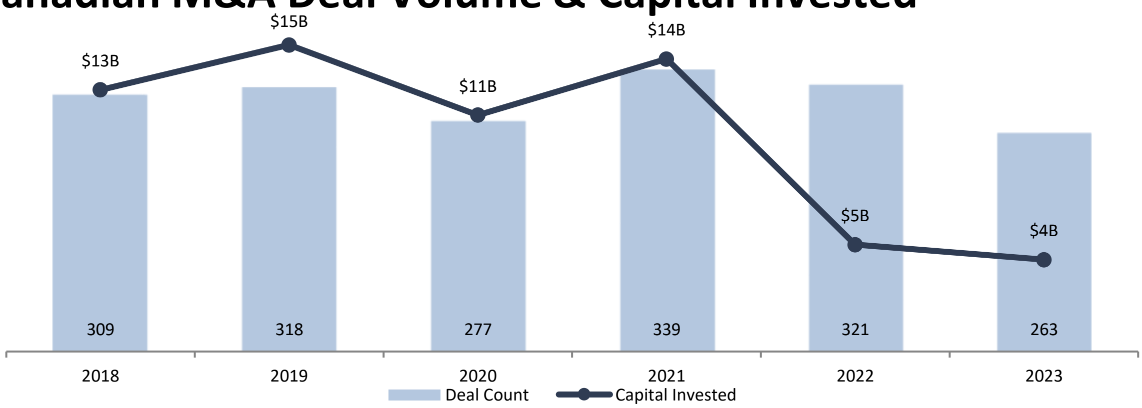
Source: Pitchbook, PwC, Bloomberg, Reuters, Bain & Company

Canadian Quarterly Deal Volume & Capital Invested



- M&A activity throughout the consumer sector remained below historical averages, with Q3 deal volume falling below the pandemic-era low of 55 transactions witnessed in Q3 2020. Q4 was another slow quarter, with a historically low 51 transactions announced.
- An overall environment of uncertainty, contributed to by high inflation, interest rate hikes, and the possibility of an economic downturn, kept many acquirers within the consumer sector on the sidelines.
- The downturn in activity was particularly true for domestic deals involving Canadian acquirers and targets. Associated deal volume fell 28%, while capital invested fell 65%.
- Canadian assets are likely to remain attractive to foreign acquirers focused on value creation due to the relatively weak Canadian dollar. Associated capital invested rose by over 70% in 2023.

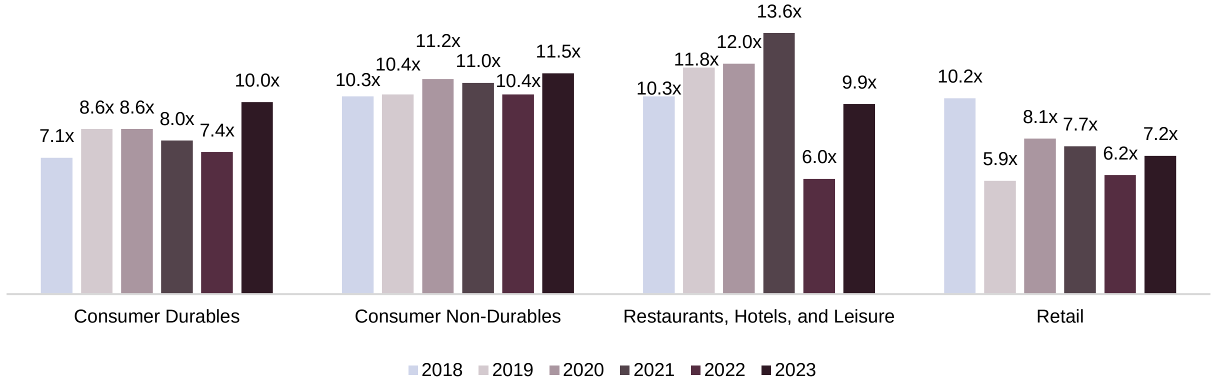
Canadian M&A Deal Volume & Capital Invested



- Consumer M&A activity fell 20% YoY, remaining well below historical averages.
- There is reason to be optimistic about 2024 for several reasons. The BoC is anticipated to cut rates at some point during the year due to stabilizing inflation and faltering economic growth, with the Canadian economy now likely in a technical recession.
- Insolvencies involving Canadian businesses rebounded back to historical averages in 2023, with many expecting an uptick in bankruptcies in 2024. The impact of high interest rates, elevated input costs, and the end of COVID-related government subsidies will have a negative impact on businesses with limited liquidity. As a result, we expect to see more distressed M&A activity in Canada in 2024. This will present well capitalized acquirers with opportunities to consolidate.

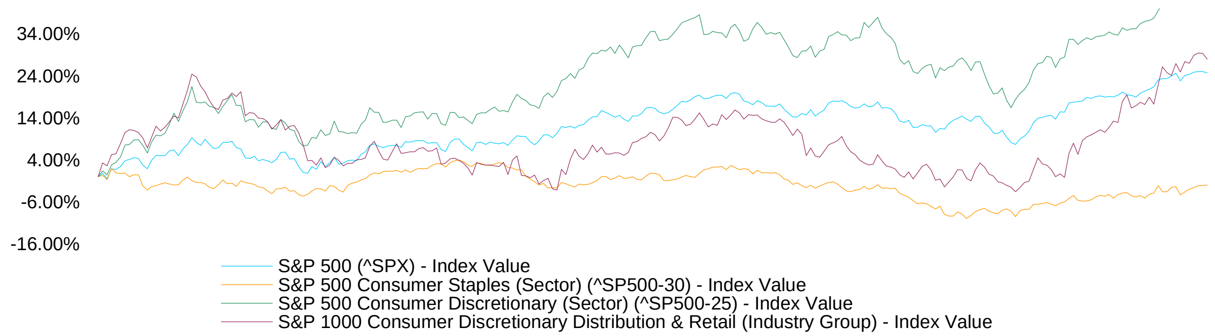
Source: Pitchbook, Torys, PwC, Bennett Jones, Reuters

Median Multiples By Subsegment



- Multiples across various consumer subsegments have improved in 2023, owing to persistent consumer spending.
- Multiples have also risen for the restaurants, hotels, and leisure sector due to increased consumer demand for experiences following the pandemic. Both US and Canadian consumers increased spending on discretionary services, including restaurants and leisure activities, in 2023.
- Retail multiples are in line with historical levels. Dropping interest rates and lower input costs, as well as supply chains that continue to normalize, should help improve retail margins in 2024. However, lower levels of consumer spending in both the US and Canada have the potential to impact sector earnings and valuation multiples.

Public Market Indices



- The S&P 500, the Consumer Discretionary, and the Consumer Discretionary & Retail indices finished 2023 with a gain of ~25%, ~40%, and ~29%, respectively.
- The Consumer Staples index was the worst performing for the year, dropping 5%. One of the principal issues faced by the sector was volume reductions. Although revenues grew, much of this was attributed to price inflation, as consumers chose to purchase less.
- Consumer discretionary stocks have been the best performing in the sector in 2023. The index's growth is being driven primarily by lower inflation, which has dropped from a high of 9.1% in June 2022 to 3.2% in December 2023. With a more dovish Fed expected, investors are confident this segment will continue to perform.

Source: Forbes, Global News, Pitchbook, S&P Global, Statista

2023 Consumer Subsegment M&A Trends

- **Food & Beverage**: Food and beverage M&A in 2023 was near pandemic lows. Strategic transactions dominated 2023, making up around ~80% of deals. Companies in this space are continuing to optimize their portfolio through M&A, influenced by pressure to manage prices, meet changing and increasingly fragmented consumer preferences, and a need to transform their business models. Notable transactions in the space included J.M. Smucker's acquisition of Hostess for $5.6B, as well as Mondelez's divesture of its chewing gum business to Perfetti Van Melle for $1.4B.

- **Pet Products:** The pet products segment has been among the most resilient within the consumer sector from a capital deployment standpoint. Total capital invested has continued to increase since 2019 and reached ~$21B in 2023. This is driven by the premiumization of pet products and an expected increase in pet ownership, which is leading to an increase in pet private label sales. Pet food, in particular, has been an active segment. A leading example of the broad interest in the pet food subsegment is PAI Partners' acquisition of Alphia, a private label pet food manufacturer.

- **Travel & Hospitality**: While the travel and hospitality industry has had a significant post-pandemic rebound, there continues to be concerns surrounding future headwinds. Changing work patterns have impacted business travel and the cost-of-living crisis has also led to companies exercising caution in their investments in the space. During the first three quarters of 2023, deal activity was 33% lower than the same period in 2022. Nonetheless, hotels and lodging maintained their position as the main source of M&A in the segment, with the acquisition of Curio by Trinity Investments and Credit Suisse, as well as the acquisition of New York's Park Lane Hotel by the Qatar Investment Authority, serving as prime examples.

- **E-commerce:** Consumer spending throughout e-commerce remained steady in 2023. Recurring revenue, low customer acquisition costs, and a loyal customer base have been key attributes that investors are looking for in current markets. The sector saw several high-profile acquisitions, including Naver's $1.8B acquisition of Poshmark in January 2023. Activity led by e-commerce aggregators persisted throughout 2023, albeit at a lower rate than in 2021 and 2022. Interestingly, many aggregators have begun to focus on omnichannel strategies and acquiring assets with exposure to direct-to-consumer, digital marketplaces other than Amazon, as well as physical retail.

- **Retail:** As in recent years, the retail sector continued to consolidate, particularly within the apparel subsegment, with the acquisition of Capri Holdings (Michael Kors, Versace, and Jimmy Choo) by Tapestry (Coach, Kate Spade, Stuart Weitzman) for $8.5B, as well as the acquisition of Tom Ford by Estée Lauder for $2.6B stealing headlines. However, other retail subsegments, including grocery, convenience, and hardware, also saw several large transactions. Moving forward, we also expect retailers to focus on acquiring technology solutions that allow them to better serve consumers, such as virtual selling, virtual fitting rooms, and clienteling solutions, as well as optimize operations, such as logistics and fulfillment technology, workforce management, AI-powered planogram generation, and demand forecasting, among other technologies.

Source: Capstone Partners, Car and Driver, Clarkson Consulting, Kroll, Pitchbook, PwC, S&P Global, Verdict

Notable North American Growth Equity Transactions

Date	Investee	Lead Investor(s)	Round Size	Sector
Sep-23	Virgin Voyages	Ares, BainCapital	$550.0M	Travel
Jun-23	ABG Authentic Brands Group	General Atlantic	$500.0M	Apparel
Feb-23	hoffmaster Color·Fashion·Design	Gamut Capital	$496.0M	Houseware
Feb-23	Yelloh!	4X4 Capital	$300.0M	Food & Beverage
Mar-23	WOF entertainment	Undisclosed Investors	$220.0M	Entertainment
Jul-23	Monumental Sports & Entertainment	QIA جهاز قطر للاستثمار Qatar Investment Authority	$202.5M	Sports
Aug-23	Camp Pickle	Simon, Good Alpha Industries	$200.0M	Entertainment
Mar-23	Del Real Foods Hispanic Flavors for Modern Life	Palladium Equity Partners	$165.0M	Food & Beverage
Jan-23	Chernin Entertainment	QIA جهاز قطر للاستثمار Qatar Investment Authority	$150.0M	Entertainment
Mar-23	WTA	CVC	$150.0M	Sports

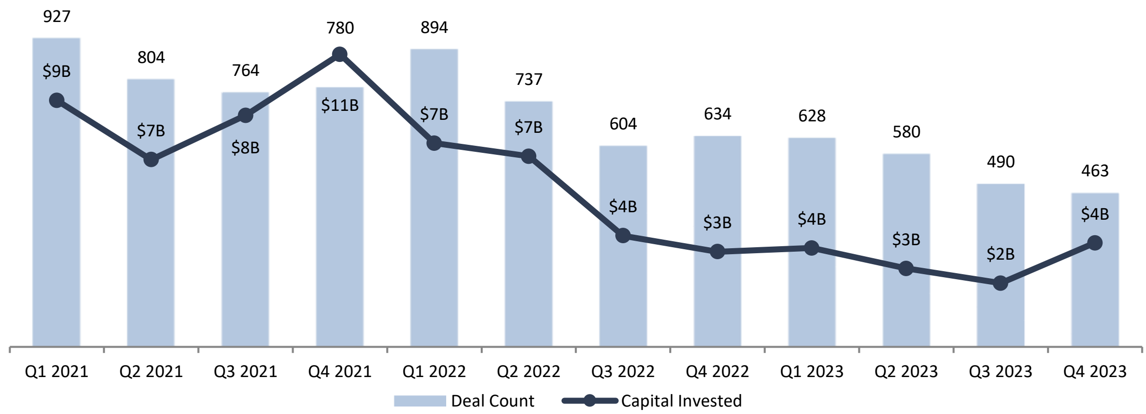
Source: Pitchbook

Notable North American Venture Capital Transactions

Date	Investee	Lead Investor(s)	Round Size	Sector
Nov-23	JUUL	**Undisclosed Investors**	$1.3B	E-Cigarettes
Feb-23	ZWIFT	alexa fund, KKR, PERMIRA	$620.0M	Fitness
Sep-23	eat meati	revolution ventures	$200.0M	Food & Beverage
Apr-23	TONAL	L Catterton	$130.0M	Fitness
Jul-23	Quince	Wellington Management	$77.0M	E-Commerce
May-23	Liquid Death Mountain Water	Vibora Capital	$76.5M	Food & Beverage
Jan-23	Guayakí Yerba Mate	Access Capital	$75.0M	Food & Beverage
Oct-23	pair	Prysm Capital	$75.0M	Eyewear
Jul-23	bobbie	Groundforce Capital	$70.0M	Food & Beverage
May-23	Lemnature Aquafarms	**Undisclosed Investors**	$58.5M	Food & Beverage

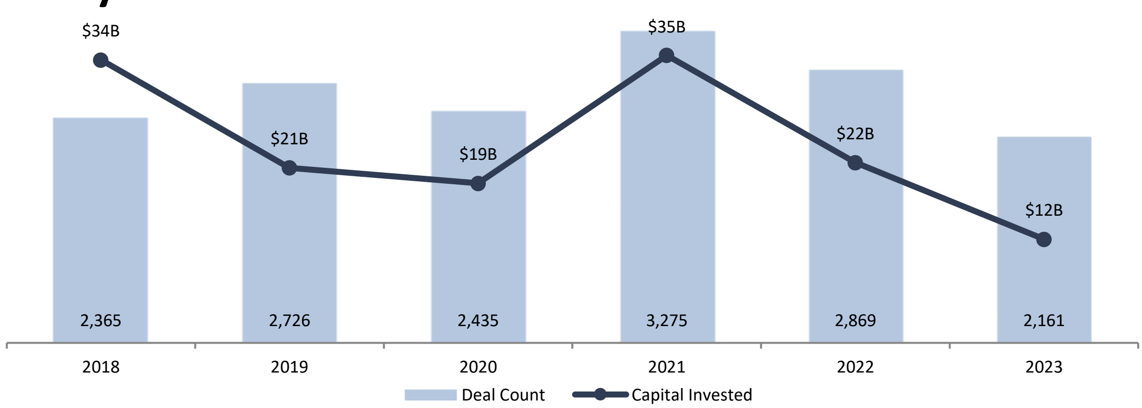
Source: Pitchbook

Quarterly VC Investment



- In line with the trends observed throughout the asset class, venture capital funding to the consumer sector fell significantly in 2023.
- However, there was a notable difference in funding depending on the subsector. VC investors continued to favor high-growth segments, including the better-for-you food and beverage sector, accounting for five of the year's 10 largest transactions.
- Despite signs of a potential resurgence in IPO activity within the consumer sector, including the debut of Birkenstock on public markets, the exit environment remained relatively unfavorable throughout 2023. Capital being returned to investors was at its lowest level since 2023, thus reducing the amount of new capital available to be reinvested into new funds.

Yearly VC Investment



- 2023 saw a significant decline in both capital invested (down 83%) and deal volume (down 25%).
- Late-stage deal sizes have fallen by more than 50% since 2021 as investors shy away from larger, late-stage rounds due to an unfavorable exit environment. The number of late-stage rounds has also fallen 20% YoY.
- Consumer-facing companies that have been able to successfully raise rounds amid difficult fundraising conditions have been businesses that have scalable unit economics and positive contribution margins. Businesses with omnichannel potential, as well as strong management teams, have also been attractive to investors.
- VC activity is expected to slightly improve in 2024 and be in line with levels of investment seen in 2020.

Source: Carta, EY, Global News, Pitchbook, S&P Global, CB Insights

2023 Macroeconomic Highlights

Interest Rate Hikes

- The series of rate hikes that plagued businesses and consumers throughout 2022 continued into 2023.
- To kick-off the year, the BoC raised rates by 25 basis points (bps), increasing its overnight lending rate to 4.5%. Despite high levels of inflation, the BoC chose to hold rates steady in March and April, citing cooling economic growth figures.
- However, after two consecutive pauses, the BoC raised rates by 25 bps in both June and July, bringing the overnight rate to 5.0%. The moves were reportedly driven by an uptick in inflation, increased housing market activity, and a tight labor market.
- Much to the relief of Canadians, the BoC held rates steady for the remainder of the year. It is likely that the BoC will keep rates at 5.0% for the foreseeable future as it assesses the impact of its historic rate hiking cycle on economic growth.
- Many expect the BoC to cut rates at some point towards the end of Q2 2024.
- The situation south of the border was similar, with the Fed instituting four 25 bps rate hikes throughout 2023, bringing the federal funds rate to a peak of 5.25% to 5.50%.
- Like in Canada, the last of the Federal Reserve's rate hikes took place in July, with Jerome Powell holding rates steady at the remainder of the Fed's 2023 meetings.
- Interest rates were kept unchanged at the Fed's latest meeting on December 12th and 13th, 2023. Like the BoC, the Fed will likely employ a "wait and see approach" regarding future rate changes. However, it is likely that the Fed's rate hiking campaign is over, with many expecting the Fed to cut rates several times in 2024, with the first rate cut likely coming in H2.

Inflation

- The inflationary picture throughout Canada and the US followed a similar pattern in 2023.
- While inflation moved in an out of the BoC and Fed's target ranges, most increases seen throughout 2023 were attributed to fluctuating prices for gas, groceries, housing, and services.
- In December, Canadian inflation accelerated to 3.4% YoY, up from 3.1% in November. The increase was driven primarily by a lesser decrease in gasoline prices from November to December 2023 than in the prior year. Grocery prices, which rose 4.7% YoY, also contributed to increased inflation.
- Meanwhile, US inflation rose by 2.6%, remaining flat from November. Prices for core services, excluding housing, rose 3.3% YoY. Barring volatile food and energy prices, core inflation clocked in at 2%. December marked the third consecutive month that the US economy posted sub-3% inflation.
- Experts anticipate that inflation will likely hover around the BoC and Fed's target rate throughout 2024, with inflation firmly dropping within the 2-3% target rate in 2025.
- However, extrinsic factors, including the conflicts in the Middle East and Russia's war in Ukraine, have the potential to complicate the inflationary landscape.

Source: Bank of Canada, Bloomberg, U.S. Bureau of Labor Statistics, Reuters, TD

2023 Macroeconomic Highlights

Employment & Wages

- The Canadian unemployment rate progressively rose from 5.0% in January 2023 to 5.8% in December 2023.
- The rise in unemployment is explained by several factors, including heightened rates of immigration, which have outpaced job growth, as well as a softening economic environment.
- Unlike past labor market downturns, the increased unemployment rate has not been driven by mass layoffs. Surprisingly, approximately half of the 0.8% increase in unemployment can be attributed to new graduates unable to find jobs.
- Despite a rise in unemployment, hourly wages rose throughout the year, with wages rising 5.4% YoY in December (up from 4.8% in November).
- The US's unemployment rate remained relatively unchanged throughout 2023, fluctuating between 3.4% and 3.8%. The US economy posted an unemployment rate of 3.7% in December 2023, an increase from the rate of 3.5% observed in December 2022.
- Like in Canada, American wages continued to rise. In December, wages for product/non-supervisory workers rose by 4.3%, while those for non-farm employees rose 4.0%.

Housing

- The Canadian housing market saw significantly less sales than in 2022, with sales falling 11% to 443,511 units.
- The average sale price peaked in May at $729,000 CAD. The cost of housing accelerated across the country, with prices rising in all provinces, expect Yukon (-2% YoY change). The Northwest Territories saw the largest increase in the cost of housing, followed by Nova Scotia, Quebec, and Alberta.
- Experts anticipate that housing costs will rise 5.5% in Canada in 2024. A recovery in sector activity will be aided by highly anticipated rate cuts.
- US housing prices peaked in June at a median sale price of $425,000. This falls just shy of 2022's record average sale price of $433,000. Low supply coupled with low demand kept housing prices high.
- The San Francisco Bay Area remained the most expensive metropolitan area in the country, with its median sale price closing in at $1.5M.
- Despite anticipated rate cuts and softening prices in some markets, affordability will likely remain a challenge for many across the US throughout 2024, particularly for first-time buyers. It is likely that demand will continue to outpace supply and that pent-up demand will drive prices higher.

Source: Statistics Canada, U.S. Bureau of Labor Statistics, Reuters, Federal Reserve, Economic Policy Institute, Visual Capitalist, NPR

2023 Macroeconomic Highlights

Consumer Spending

- Canadian retail sales, excluding auto sales, remained flat for much of 2023. However, consumer spending improved in Q4, with gains observed in October and November. Overall, retail sales grew ~4% QoQ in Q4.
- Throughout 2023, spending on discretionary services outpaced spending on discretionary goods as Canadian consumers continue to prioritize experiences.
- In-line with decreased home sales, spending on furniture and related goods decreased in 2024.
- Canadian consumers continue to feel the pressure of interest rates and increased costs. Moving forward, Canadians are likely to cut back on spending, especially on significant purchases, until the macroeconomic landscape, particularly interest rates, becomes clearer.
- One of the US's main drivers of economic growth was the robust levels of consumer spending that persisted throughout 2023 despite inflation and decades-high interest rates.
- Adjusted for seasonal variation, US retail and foodservice sales rose 0.6% MoM in December and 5.6% YoY. Total sector sales for 2023 were up 3.9% from 2022. Non-store retailers, clothing and accessory stores, and department stores ended the year on a strong note.
- Like Canadians, American consumers continue to favor experiences, with travel spending increasing. This was particularly true for younger consumers that continue to spend a significant portion of their income on leisure and recreational activities.
- Despite robust consumer spending levels in December, US consumers continue to be burdened by higher prices and interest rates. With the heightened propensity to spend due to the holidays now in the rearview mirror, consumer spending is likely to decelerate in the coming months.

GDP

- Canada's economic landscape began to soften in 2023, with GDP contracting in the third quarter. Real GDP declined by 1.1% on an annualized basis, which was greater than expected.
- While official figures have not yet been released by Statistics Canada, it is estimated that the Canadian economy grew by 0.3% in Q4, thus avoiding a recession.
- Despite recent growth, the consensus is that Canada will enter a shallow-to-mild recession in the early months of 2024.
- US real GDP increased by 3.3% in Q4 2023, bringing 2023's total GDP growth rate to 2.8%. US real GDP growth was driven, in part, by robust consumer spending, which has persisted despite high interest rates and prices.
- Experts anticipate that consumer spending is likely to continue to rise 2024, albeit at a lower rate than in the past 12 months. As a result, economic growth will likely stagnate, with GDP forecasted to come in between 0.5% and 1.0%, If true, the Fed will have successfully engineered a much sought after "soft landing".

Source: Statistics Canada, U.S. Bureau of Labor Statistics, Reuters, Federal Reserve, RBC, TD, Deloitte, Visa

2024 Predictions

Economic Rebound

- As inflation gradually recedes, the Federal Reserve has adjusted its stance, signaling the possibility of multiple rate cuts in 2024. Retail sales remained stable, maintaining an average monthly YoY growth of 3.2%.
- Notably, December's retail sales surpassed expectations, exhibiting a 5.6% YoY increase.
- Consumer confidence in December exceeded predictions, registering at 110.7 compared to the estimated 104.5, reflecting improved perceptions of current business conditions and job availability.
- In recent months, several market indices have neared record highs not seen since January 2022 and posted double-digit gains, including the S&P 500, fostering a growing optimistic outlook for increased M&A in the latter half of 2024.
- Additionally, after two years of rapid cost and price inflation faced by consumer companies, the ability to navigate the increase in input costs and the subsequent pressure on prices has positively impacted profitability, resulting in an expected recovery of consumer M&A activity.

Downscale of Transaction Sizes

- Global megadeals, transactions with a value of more than $5B (including those in the consumer space), fell by 60% from their peak of almost 150 deals in 2021 to less than 60 in 2023, although an uptick was seen in the latter half of the year with acquisitions such as the $13.0B Tapestry and Capri deal finalized in August 2023.
- With financing costs likely to remain elevated throughout 2024, executing larger transactions will remain challenging, while the mid-market is expected to remain resilient.

Abundant Dry Power

- Financial sponsors currently hold $2.5T in dry powder and are facing increasing pressure from LPs to deploy capital. At the same time, private capital oversees approximately $12.0T in assets under management (AUM), nearly twice the amount recorded in 2019 before the global pandemic.
- This highlights a significant buildup of unrealized value in portfolios over the past three to four years. As numerous private equity funds near or exceed their typical deadlines for portfolio investments, the increasing pressure from limited partners to return capital is expected to result in a notable uptick in exit activity.
- Easing of monetary policy and associated rate cuts, which many predict will start in H2, will also help bolster the case for a more robust level of financial sponsor activity.
- Corporations operating within the consumer sector with strong balance sheets will continue to hold an advantage over private equity in a more capital-constrained environment.

Source: KPMG, Morgan Stanley, PwC, Solomon Partners, Trading Economics

2024 Predictions

Rate Cuts Will Boost Activity, But Adjusting to New Normal Remains Key

- Throughout 2023, some strategic acquirers adapted to a higher cost of capital environment, forgoing the high interest rate environment in favor of pursuing growth opportunities.
- While many expect rates to be cut in the latter half of 2024, waiting until interest rates are in line with pre-pandemic levels, will be a losing proposition. It may take years for interest rates to return to pre-COVID levels. Not engaging in M&A until then, if that ever happens,
- Assessing acquisition opportunities in the context of a high-rate environment, and making sense of said opportunities, will benefit acquirers in the long-run as rates begin to drop and refinancing opportunities abound.

Private Credit's Heydey

- While private credit has been growing in popularity since 2008, 2023 was a year that we saw a significant upheaval in activity, with the asset class growing to represent nearly 12% of the alternatives market. Through Q3, 86% of loans provided for leveraged buyouts were originated from private lenders.
- Many non-bank institutions, including pension funds, are massively increasing their exposure to private credit as it offers higher returns than traditional fixed-income products.
- We expect the trend to continue for the foreseeable future as traditional institutions remain constrained by high capital requirements.

Grocery Market Continues to Consolidate

- While inflation does appear to be cooling, prices are still high, with the elevated costs of some inputs continuing to put margins under pressure.
- As a result, grocers are expected to consolidate to achieve greater economies of scale and become more efficient.
- Large grocers are expected to continue to create value through initiatives that will enhance customer engagement and loyalty.

Retailers Will Leverage AI to Build an Omnichannel Ecosystem

- E-commerce activity has persisted post-pandemic. Studies indicated that 73% of consumers utilize multiple channels and that retails can boost customer engagement by up to ~250% when employing several channels.
- Given the competitive nature of retail, large players will continue to invest in AI and big data to ensure that they maintain their competitive position.
- Retailers are likely to invest in novel technologies to improve the in-store experience, such as VR-powered way-finders and smart mirrors. AI-powered technologies aimed at improving demand forecasting, generating optimized planograms, and driving operational efficiencies will continue to be popular acquisition targets for sector acquirers.

Source: KPMG, Morgan Stanley, PwC, Solomon Partners, Trading Economics

2024 Predictions

Portfolio Optimization and Strategic Acquisitions

- In 2024, consumer-facing companies are expected to concentrate on value creation by refining their portfolios and refocusing acquisitions on synergistic and capability-driven deals.
- By divesting non-core assets, companies aim to streamline operations, cut costs, and allocate resources to invest in their core business. Divested assets are typically no longer aligned with the parent company’s long term growth strategy.
- Illustrative examples in the consumer sector include Mondelez’s divestiture of its chewing gum business to Perfetti Van Melle in October 2023. This move was driven by Mondelez’s strategy of moving away from legacy business lines while positioning its portfolio for future growth.

Focus on Technology in Consumer M&A

- Consumer M&A will persist, driven by the pursuit of integrating technology and meeting sustainability targets, along with deals that bolster supply chain security or foster resilience through expansion into adjacent markets.
- With over 70% of business leaders expecting to use M&A to accelerate the adoption of technology and technology-related processes, acquisitions will serve as a powerful lever to accelerate reinvention and create a competitive edge.

Food & Beverage M&A Going Forward

- Activity within the food & beverage sector, particularly within the healthy and better-for-you segments, is set to increase in 2024 as shifting consumer preferences towards healthier consumption continue to accelerate.
- Companies will continue to engage in M&A activity to extend their capabilities and solidify their position in the market. Making effective use of technology will become even more important as companies seek to optimize production, operations, and distribution.
- While the financing environment remains challenging, private equity acquirers will likely remain active, with corporate carveout opportunities set to increase.

Hospitality

- As the pandemic has receded, growth within the hospitality sector is once again within reach. As a result, activity within the sector is expected to continue to grow in 2024.
- The pandemic forced many hospitality businesses to think creatively to meet government regulations, resulting in many businesses investing in technology to sustain a competitive advantage.
- Innovations have allowed hospitality operators to improve the overall guest experience. This is a crucial point of differentiation as the hospitality landscape becomes increasingly crowded.

Source: KPMG, Morgan Stanley, PwC, Solomon Partners

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