

IJW

North American Consumer Quarterly Market Report Q1 – 2024



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

Q1-2024 Macroeconomic Highlights

Interest Rates Holding Steady

- Throughout Q1, the Federal Reserve (Fed) held interest rates steady, maintaining rates at 5.25% to 5.50%, the same level they have been since July 2023.
- The decision to keep rates steady was due to high inflation, strong job gains (payroll employment grew by 303,000 in March) and low unemployment rates (3.8% decline).
- The Bank of Canada (BoC) has also maintained its policy rate of 5.0% throughout Q1, as has been the case since July 2023. This increased rate is substantiated as the Consumer Price Index (CPI) rose to 2.9% in March, 0.1% higher than February and higher than the BoC's target of 2%.

Recession Fears Loom

- JPMorgan Chase CEO Jamie Dimon mentions the risk of 'stagflation', or persistent levels of high inflation where interest rates could soar to 8% in the US, is a possibility.
- The US economy added approximately 303,000 jobs in March 2024, its largest gain in over a year. The unemployment rate has also edged lower to 3.8%.
- Overall, sustained rates will continue to dampen consumer demand for goods and services, and business profitability and growth. High borrowing costs will dampen profit margins, disposable income, and confidence levels, impacting GDP and risking a recession.
- By contrast, higher unemployment could prompt the Fed and BoC to lower rates to stimulate economic growth amid lower consumer spending and high inflation.

Inflation Slightly Higher as Expected

- Headline CPI inflation in Canada inched higher in March to 2.9% year-over-year (YoY), in line with expectations (3%), and up 0.1% from February.
- Higher gasoline prices in Canada were the biggest contributor to this uptick.
- By comparison, the US Personal Consumption Expenditures (PCE) Price Index rose at a 3.4% annualized rate this quarter, while Core PCE rose at a 3.7% rate.

Consumer Spending

- In February, retail sales in Canada declined by 0.1% to \$66.7B CAD, primarily driven by a 2.2% decrease in sales at gasoline stations. Core retail sales, excluding fuel and vehicle expenditures, remained unchanged from January, reflecting declines in spending on consumer durables.
- These trends suggest a slowing economy, which the Bank of Canada may consider in its upcoming policy meeting in June when setting interest rate targets.
- In contrast, the United States experienced a 2.5% increase in consumer spending this quarter. However, this is a -0.5% miss from Wall Street's expectations and indicative of a possible slowdown in the US economy.

Q1-2024 M&A Highlights

Notable North American Consumer M&A Transactions

 MASONITE has been acquired by 	<ul style="list-style-type: none"> Transaction Value: \$3.9B EV/Revenue: 1.4x EV/EBITDA: 11.6x Masonite is a global designer, manufacturer, and marketer of interior and exterior doors, as well as door systems. This acquisition creates a new growth platform for Owens Corning, strengthening its existing position in residential building materials and expanding its portfolio of offerings.
sovos brands has been acquired by 	<ul style="list-style-type: none"> Transaction Value: \$2.7B EV/Revenue: 2.7x EV/EBITDA: 23.6x Sovos Brands is an American food company, with brands such as Rao's, Noosa, and Michael Angelo's. Sovos Brands' acquisition bolsters Campbell Soup's portfolio, adding high-growth brands and creating shareholder value through increased sales and earnings growth.
VIZIO has been acquired by 	<ul style="list-style-type: none"> Transaction Value: \$2.3B EV/Revenue: 1.4x EV/EBITDA: 70.8x VIZIO is a manufacturer of smart TVs and sound bars for the home entertainment space, based in California. Acquiring VIZIO and its SmartCast Operating System (OS) expands Walmart's media business (Walmart Connect), enabling broader advertising.
 has been acquired by David Rubenstein	<ul style="list-style-type: none"> Transaction Value: \$1.7B EV/Revenue: 6.5x EV/EBITDA: NM The Baltimore Orioles are an MLB team. David Rubenstein and his consortium have acquired 40% of the team. Other members of the new ownership group include Michael Arougheti, Michael Bloomberg, Cal Ripken Jr., and Michele Kang.

Capital Invested in Q1	Transactions in Q1	Median EV/EBITDA
\$31.6B	483	11.6x

Q1-2024 M&A Highlights

Notable Canadian M&A Transactions

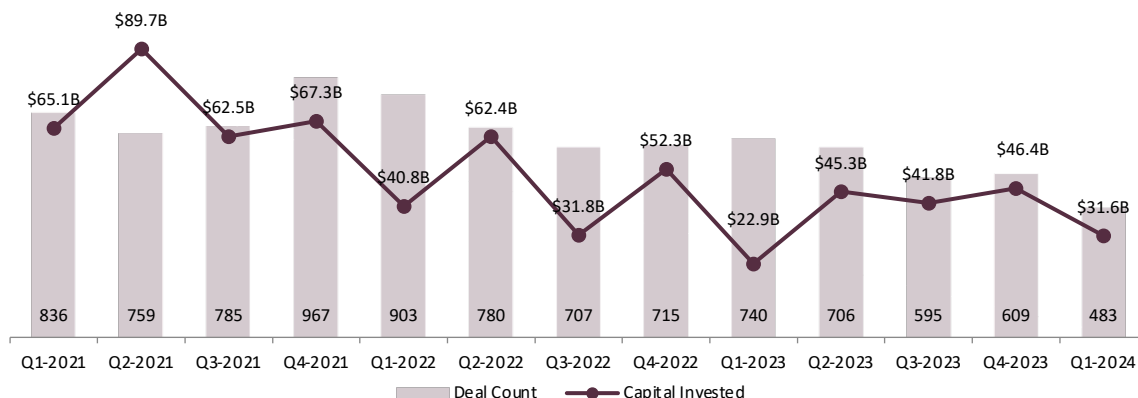
 <p>has acquired a majority stake in</p> 	<ul style="list-style-type: none"> • Transaction Value: \$186.0M • Undisclosed Valuation Multiples • 9 Story Media Group is a leading creator, producer and distributor of premium kids and family-focused content. • This transaction significantly expands Scholastic's opportunities to leverage its trusted brand, best-selling publishing, and beloved global children's franchises across print, screens, and merchandising.
 <p>has been acquired by</p> 	<ul style="list-style-type: none"> • Transaction Value: \$115.5M • EV/EBITDA: 3.4x • Player One Amusement Group (P1AG) is an amusement gaming equipment, outsourced operations, and maintenance support services provider based in Toronto, ON. • The acquisition of P1AG allows OpenGate Capital to create best-in-class experiential entertainment for consumers, driving superior location profitability for its customers.
 <p>has merged with</p> 	<ul style="list-style-type: none"> • Transaction Value: \$48.1M • EV/Revenue: 4.0x • Aqualitas is a Health Canada license holder, with cannabis products distributed Canada-wide and internationally for medical and recreational consumers. • This merger allows the combined entity to capitalize on recent cannabis legislation in Germany as a result of improved vertical integration, a large distribution network and high-quality products.
 <p>has been acquired by</p> 	<ul style="list-style-type: none"> • Transaction Value: \$32.0M • Undisclosed Valuation Multiples • The Sheraton Ottawa Hotel boasts 236-guest rooms, 9,600 square feet of meeting space, a restaurant, a bar, a convenience store, an indoor swimming pool and a fitness centre. • The acquisition of Sheraton Ottawa Hotel fits into Sunray Group's expansion strategy and marks its first foray into the Ottawa market.

Capital Invested in Q1	Transactions in Q1	Median Deal Size
\$404.2M	37	\$7.6M

Top Consumer Transactions in Q1-2024

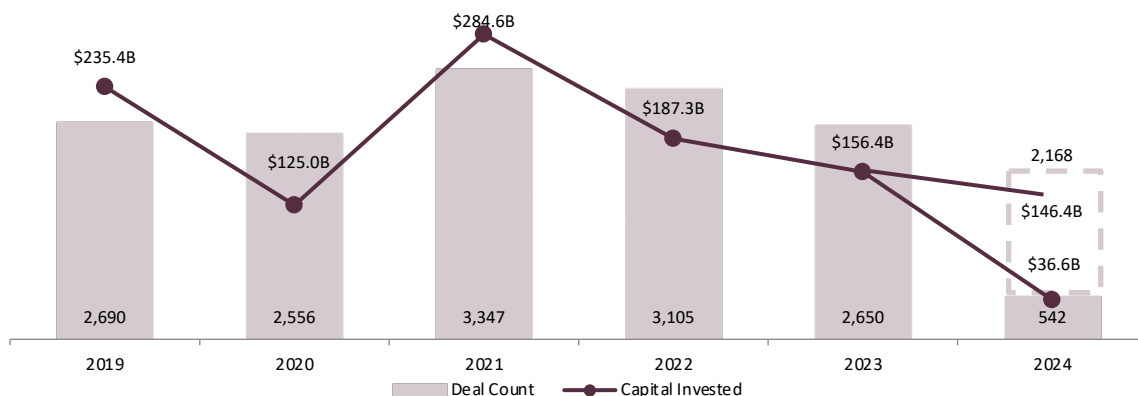
Date	Target	Acquirer	EV	EV/EBITDA	Sector
Mar-24	 MASONITE		\$3.9B	11.6x	Industrials
Mar-24		<i>Campbell's</i>	\$2.7B	23.6x	Food & Beverage
Feb-24	VIZIO	Walmart 	\$2.3B	70.8x	Media
Mar-24	<i>Orioles</i>	David Rubenstein	\$1.7B	Undisclosed	Sports
Feb-24		 NEW MOUNTAIN CAPITAL LLC	\$1.7B	Undisclosed	Media
Jan-24		 restaurant brands international	\$1.6B	8.3x	Food & Beverage
Jan-24	 bluegreenvacations®	Hilton GRAND VACATIONS	\$1.5B	20.6x	Hotels & Resorts
Jan-24	chico's FAS [®]	 SYCAMORE PARTNERS	\$1.0B	6.7x	Clothing & Apparel
Mar-24	RESIDENT	 ASHLEY	\$1.0B	Undisclosed	Home Furnishings
Jan-24			\$1.0B	Undisclosed	Juvenile Products

Quarterly Deal Volume & Capital Invested



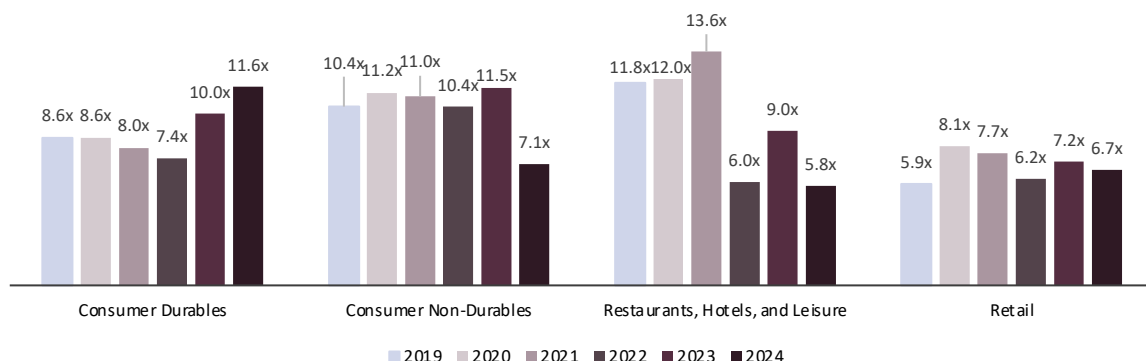
- Q1-2024 saw lower deal count (483) and capital invested (\$31.6B) compared to the previous quarter, with buyers targeting high quality, strategic acquisitions (i.e. Campbell's \$2.7B acquisition of Sovos Brands).
- Buyers continue to seek companies that add scale and expand their existing product portfolios.
- High growth brands that position companies for future growth have been particularly attractive, with companies within the better-for-you food & beverage subsegment garnering significant interest, driven by consumer trends.
- Capital invested is up year-over-year (YoY) despite lower deal count, with buyers willing to pay a premium for quality assets (i.e. Walmart's \$2.3B acquisition of VIZIO at 70.8x EV/EBITDA).

Yearly M&A Deal Volume & Capital Invested



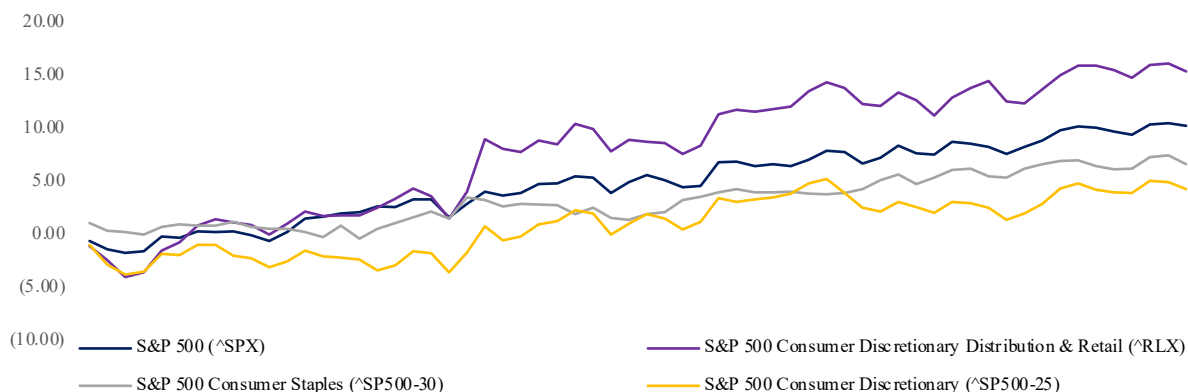
- A focus on premium offerings will be crucial as consumer trends favour premiumization. Quality and differentiation will be key for future brand success.
- Moreover, a large backlog of assets that were held by private equity firms in 2023 will drive deal activity this year, as they look to exit their investments at reasonable valuations.
- Optimistic valuation expectations, the possibility of lower interest rates in H2 2024 and H1 2025, and record levels of dry-powder are factors that may result in increased activity.
- We anticipate consumer companies with strong brand recognition, a proven track record of growth, and profitable operations to be attractive targets in 2024, receiving strong interest from strategic and financial buyers alike.

Median EBITDA Multiples by Subsector



- Multiples across the Consumer Non-Durables, Restaurants, Hotels, and Leisure, and Retail subsectors have decreased, driven by rising cost pressures on consumers.
- Non-durable goods, such as cosmetics and clothing, saw lower demand by consumers last quarter, leading to lower multiples.
- Given the shift in consumer preferences to favor experiences versus goods, the Restaurants, Hotels, and Leisure subsector witnessed increased sales to begin the year, with expectations of a strong upcoming summer travel season, which should result in higher multiples in H2 2024.
- Consumer Durables remain strong, driven by an increase in manufactured good orders (+2.6% in March) as consumers remain optimistic of future economic growth.

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










- The Consumer Discretionary Distribution & Retail, Consumer Staples, and Consumer Discretionary indices ended the quarter +5.5%, -3.6% and -6.0%, compared to the S&P 500, respectively.
- The underperformance of the consumer staples and consumer discretionary indices suggests that investors remain wary of consumer companies' future earnings potential, as inflation and interest rates continue to pose a threat to consumer spending levels.
- This sentiment, driven by macroeconomic conditions, is shared with the broader public markets, where IPO activity (291 globally, this quarter) has slowed down to its lowest level since Q2 2020 (250 globally).







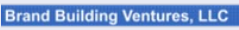
Q1-2024 Consumer Subsector M&A Trends

- **Food & Beverage:** Strategics continue to pursue acquisitions of brands that are most complimentary to their existing portfolio, increasing its cross-selling potential. Major food brands such as Mondelez International and General Mills have signaled their appetite for acquisitions to gain a competitive advantage. Notable transactions last quarter included Campbell Soup's acquisition of Sovos Brands for \$2.7B and Clayton, Dubilier & Rice's acquisition of Shearer's Foods for \$285M.
- **Pet Products:** Strategic and financial buyers continue to seek opportunities in the subsector in a bid to broaden their offerings and expand their geographic reach. Moreover, consumers are increasingly placing a premium on high quality pet products and services, as well as flexibility and convenience.
- **E-commerce:** Manufacturers, retailers, and e-commerce platforms have pursued vertical integration since the pandemic, acquiring suppliers and technology to gain greater control over their supply chain. This trend is expected to persist as brands strive to maintain profitability amidst high input costs (driven by macroeconomic and geopolitical events). Moreover, strategics are pursuing online and digital brand acquisitions in a bid to grow their product portfolio and expand their geographical reach. Notable transactions this quarter include Ashley Home's acquisition of Resident Home for \$1.0B.
- **Travel & Hospitality:** The rebound in tourism and consumer preference shifts from goods to experiences are driving dealmaking in this subsector. Hotels, lodging, and resort destinations were top targets for buyers this quarter. KSL Capital Partners' \$3.0B acquisition of Alterra Mountain Company, funded through a single-asset continuation vehicle, was the subsector's most noteworthy transaction last quarter.
- **Retail:** Both strategic and financial buyers see the value in pursuing acquisitions in retail. Strategic buyers are motivated by cross-selling opportunities and expanded geographical reach whereas financial buyers see growth opportunities through restructuring and rebranding efforts. Notable transactions last quarter included Sycamore Partners' \$1.0B acquisition of Chico's FAS.

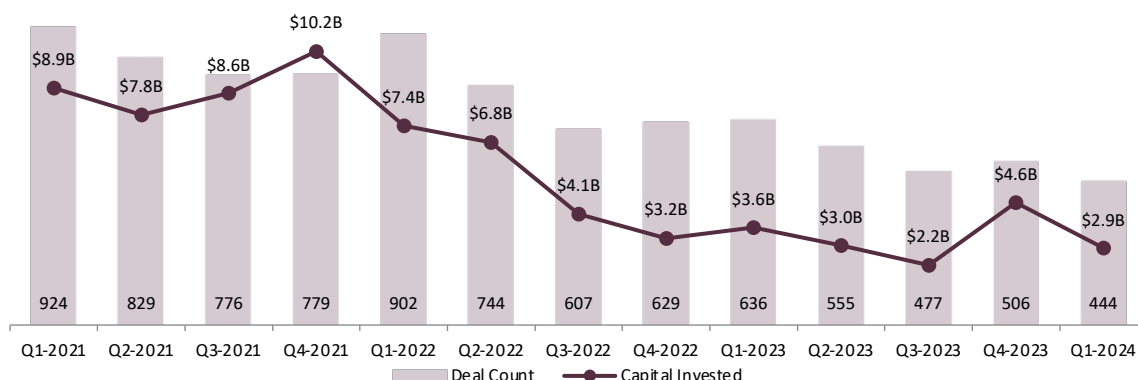
Notable North American Growth Equity Transactions

Date	Investee	Investor	Size	Headquarters	Sector
Mar-24	 HEXCLAD	Undisclosed	\$100.0M	Marina Del Ray, CA	Cookware
Jan-24	 PERFECT DAY	 SUSV	\$90.0M	Berkeley, CA	Food & Beverage
Apr-23	 willow	 Alumni Ventures	\$81.4M	Mountain View, CA	Maternity Products
Apr-23	 loyal	 BainCapital VENTURES	\$76.3M	San Francisco, CA	Pet Products

Notable North American VC Transactions

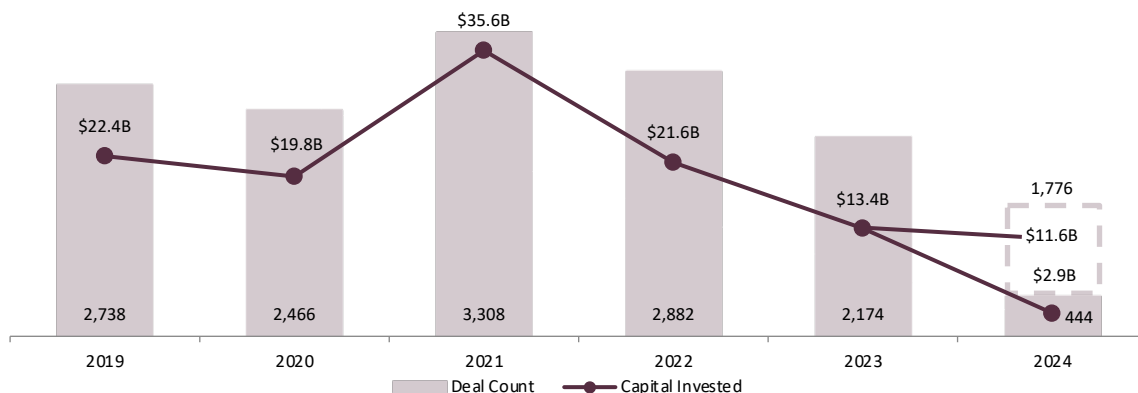
Date	Investee	Investor	Size	Stage	Sector
Jan-24	 Overmoon	 1 SHARPE	\$80.0M	Early Stage	Hotels & Resorts
May-23	 feastables	 ALPHA WAVE	\$60.0M	Early Stage	Food & Beverage
May-23	 CASA AZUL	 REFORM VENTURES	\$55.1M	Early Stage	Food & Beverage
May-23	BLANK STREET	 Brand Building Ventures, LLC	\$38.7M	Early Stage	Food & Beverage

Quarterly VC Investment



- The consumer products VC market has contracted over the last twelve months, with capital invested falling to \$2.9B in Q1 2024.
- Consumer tech is increasingly attractive to VCs, where AI can be implemented to collect better insights on consumer tastes, providing brands with actionable insights to drive growth strategies.
- Consumer startups with good unit economics, low customer acquisition costs, and high scalability are being favored in today's funding environment.
- Overall, the VC market continues to face challenges due to macroeconomic conditions, including high interest rates, sluggish IPO activity, and reduced consumer spending.

Yearly VC Investment



- Since its peak in 2021, VC investments have experienced a significant annual decline.
- A slower funding environment may persist for the foreseeable future for early-stage Consumer Packaged Good (CPG) startups. Conversely, mature companies may find attracting capital easier than last year due to brand loyalty and proven profitability, shifting VC opportunities.
- Traditional CPG investors, who historically only invested in consumer products, are now seeking diversification opportunities and moving into adjacent spaces such as enablement, e-commerce and software.
- Additionally, investing directly in a brand or in technology capable of enhancing brand performance has proven to be the most effective value generating strategy in recent quarters.

Team



Giancarlo Petraro
CEO & Managing Director
Investment Banking



Sami Kabir
Director
Investment Banking



Sarina Gill
Senior Analyst
Investment Banking



William Robinson
Senior Analyst
Investment Banking



Marvin Adjovi
Senior Analyst
Valuation



Simon Cinq-Mars
Manager
Deal Origination



Bronte MacFarlane
Senior Analyst
Investment Banking



Madison Colpitts
Analyst
Investment Banking



Gurveer Khakh
Analyst
Deal Origination



Aitsam Chaudhary
Analyst
Investment Banking



John Lee
Operating Partner
Investment Banking



Ifti Ifhar
Operating Partner
Investment Banking



Nicolas Jacques-Bouchard
Operating Partner
Investment Banking

IJW



Sarina Gill
Senior Analyst,
Investment Banking



289.834.1664



sgill@ijw.ca



Gurveer Khakh
Analyst,
Deal Origination



778.885.0310



gkhakh@ijw.ca



www.ijw.ca

