

# IJW

## North American Consumer Quarterly Market Report Q3-2024



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

## Q3-2024 Macroeconomic Highlights

### Interest Rates

- Long-awaited interest rate decreases were announced in Q3-2024. The Federal Reserve reduced the federal funds rate by 50 bps, easing monetary policy for the first time in 4 years. This lowered the target range from 5.0% to 4.75%.
- The Bank of Canada (BoC) has also reduced its policy rate by 25 bps to 4.25%, its third consecutive rate cut this year.
- It is widely expected that rates will continue to decline into 2025, with potentially additional cuts in 2024 as well, which would increase M&A activity due to attractive borrowing costs.

### Inflation

- U.S. inflation fell to its lowest level since 2022 and much closer to the 2.0% target rate, as it hovered at 2.4% YoY in September, vs. its COVID-19 period peak of 9.1%.
- Canadian CPI fell to 2.0% YoY in August, which is the BoC inflation target.
- Following the release of recent inflation data, official figures reflected a jump in joblessness, pushing investors to increase their bets on a quarter-point cut at the US central bank's November meeting. Markets were pricing in a roughly 90% probability of a quarter cut in November following these releases, up from 80% previously.

### Economic Growth

- Although the US real GDP slowed in the first quarter of the year, it rebounded strong with an annual growth rate of 3.0% in Q2-2024. The rise in economic activity was driven by consumer spending and private inventory investment. The overall growth is expected to reach 2.7% for 2024, indicating that interest rate cuts and elevated government spending will continue to fuel the economy.
- Canadian GDP grew at an annual growth rate of 2.1% in Q2-2024, although, GDP per capita fell for the fifth straight quarter. The growth surpassed the expectation of the BoC by 0.6%, led primarily from spending on necessities such as, rent, food, and electricity.

### Employment and Wages

- Total US non-farm payroll employment rose in September, with the unemployment rate at 4.1%, better than the consensus forecast of 4.2%. The most significant increases by sector were concentrated in the food & beverage, healthcare, and government sectors.
- Canada's labour market added a modest net 22,000 new positions, roughly on par with expectations and primarily in part-time job positions.
- Looking across sectors, job gains were concentrated in education services, health care and social assistance, finance, insurance, and real estate.



## Top Consumer Products Transactions in Q3-2024

Date	Target	Acquirer	EV	EV/EBITDA	Sector
Announced Aug-24	Kellanova	MARS	\$37B	17.6x	Food Products
Announced Sep-24	MLSE	ROGERS	\$9B	N/A	Sports and Entertainment
Announced Sep-24	DIRECTV	TPG	\$8B	N/A	Broadcasting, Radio and Television
Announced Aug-24	Johnson Controls	BOSCH	\$8B	N/A	Electrical Equipment
Announced Jul-24	Bally's	STANDARD GENERAL	\$6B	11.6x	Casinos and Gaming
Announced Aug-24	VARSITY BRANDS	KKR	\$5B	N/A	Clothing
Announced Jul-24	Paramount	SKYDANCE	\$4B	N/A	Broadcasting, Radio and Television
Announced Jul-24	Neiman Marcus	HUDSON'S BAY	\$3B	N/A	Specialty Retail
Announced Sep-24	General Mills	LACTALIS	\$2B	N/A	Food Products
Announced Jul-24	NATIONAL AMUSEMENTS	KKR	\$2B	N/A	Movies, Music & Entertainment



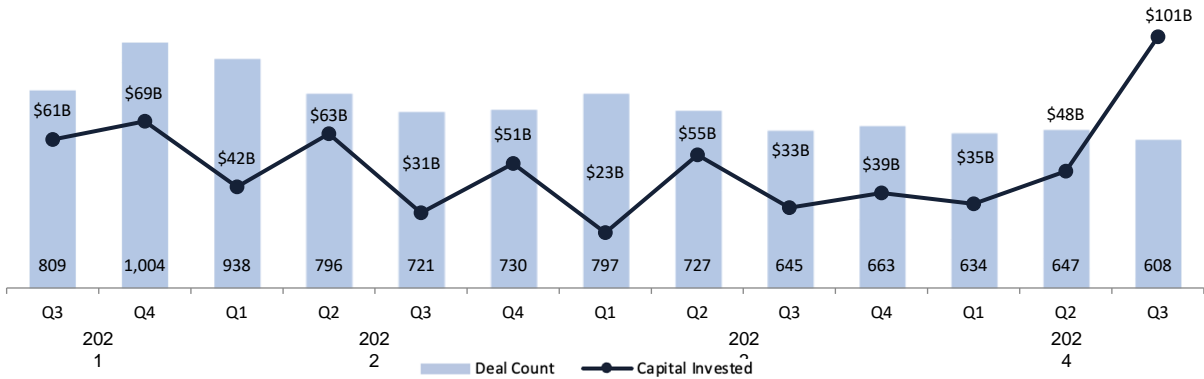
## Q3-2024 M&A Highlights

### Notable North American M&A Transactions

 <p>has been acquired by</p> 	<ul style="list-style-type: none"> <li>• Transaction Value: <b>\$37B</b></li> <li>• EV/EBITDA: <b>17.6x</b></li> <li>• Kellanova is a global food manufacturer and marketer of snacks and other packaged foods, including notable brands Pringles and Cheez-It.</li> <li>• The deal will allow MARS, known for its sweet-treats brands, such as M&amp;M, Twix, and Snickers, to expand into salty snacks and carry a more comprehensive set of complementary offerings.</li> </ul>
 <p>has been acquired by</p> 	<ul style="list-style-type: none"> <li>• Transaction Value: <b>\$9B</b></li> <li>• EV/EBITDA: <b>N/A</b></li> <li>• Maple Leaf Sports &amp; Entertainment is an operator of venues and sports teams, including the Toronto Maple Leafs and the Toronto Raptors.</li> <li>• The deal, through which Rogers bought out Bell Canada Enterprise's ownership stake in the company, adds to Rogers' existing sports portfolio and mission to bring sports championships to Canada.</li> </ul>
 <p>is being acquired by</p> 	<ul style="list-style-type: none"> <li>• Transaction Value: <b>\$3B</b></li> <li>• EV/EBITDA: <b>N/A</b></li> <li>• Neiman Marcus is an American luxury department store intended for men and women.</li> <li>• Hudson's Bay, backed by Amazon and Salesforce, has acquired Neiman Marcus, paving the way for a merger with Saks Fifth Avenue, two of the largest luxury department stores in the U.S. This acquisition will enhance HBC's market share in the industry and expand its real estate portfolio.</li> </ul>
 <p>is being acquired by</p> 	<ul style="list-style-type: none"> <li>• Transaction Value: <b>\$4B</b></li> <li>• EV/EBITDA: <b>N/A</b></li> <li>• Paramount is a leading media and entertainment company that creates premium content and experiences for audiences worldwide.</li> <li>• The deal, signifying the end of the Redstone family's multi-decade-long leadership at Paramount, will position the company as a tech hybrid, able to meet the demands of the evolving entertainment marketplace.</li> </ul>

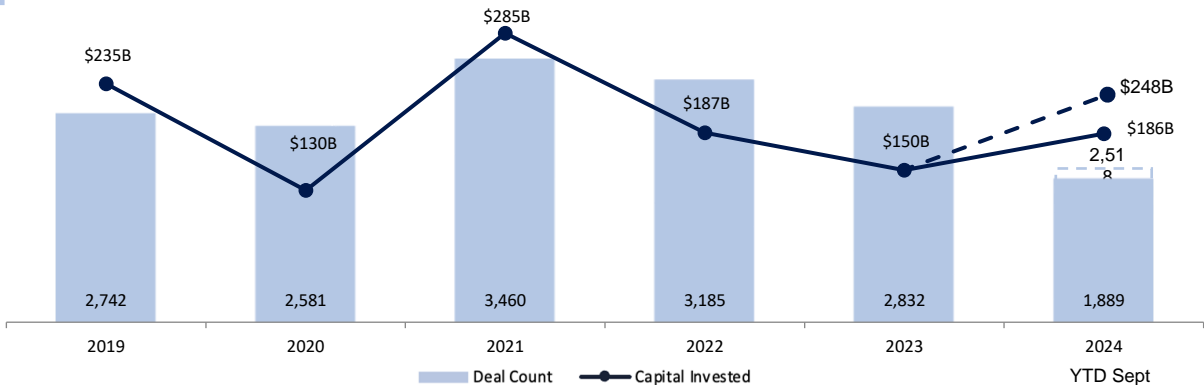
Capital Invested in Q1	Transactions in Q1	Median EV/EBITDA
\$101B	608	13.0x

## North American Quarterly Deal Volume & Capital Invested



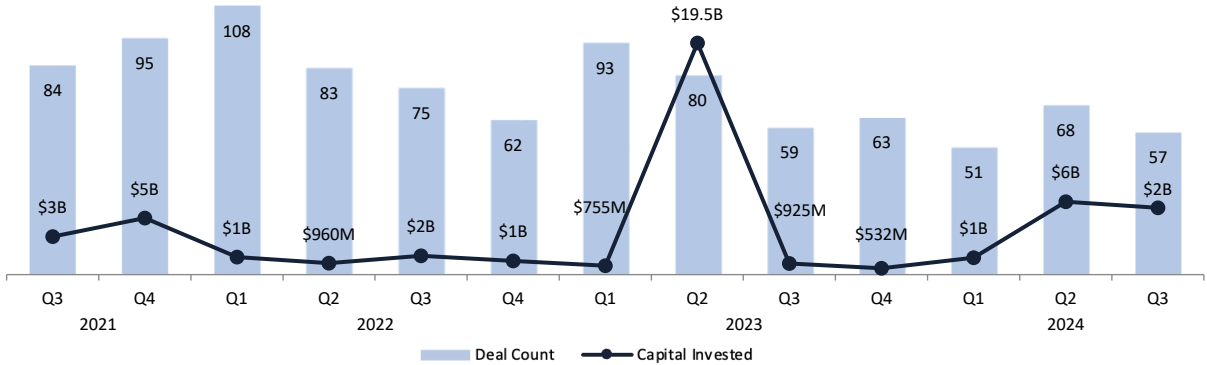
- Capital invested in the sector in Q3-2024 was strong, outperforming Q3-2023 by ~200% and Q2-2024 by ~106%. This is the result of an optimistic market reacting to improving macroeconomic signals.
- Although overall deal count is still down, the number of large transactions (over \$1B) has significantly increased, with the sector seeing 17 transactions above \$1B compared to 7 in Q2.
- Q3-2024 witnessed the announcement of what could be largest packaged-food deal in nearly 10 years, as Mars announced the \$37B acquisition of Kellogg's spin off company, Kellanova.
- Deal activity has dipped to a low in Q3-2024 with expectations that activity will remain sluggish throughout Q4-2024. Buyers are looking to stay on the sideline as uncertainty increases amid the Q4-2024 US election and investors are looking for greater clarity on regulatory and economic policies.

## North American Yearly M&A Deal Volume & Capital Invested



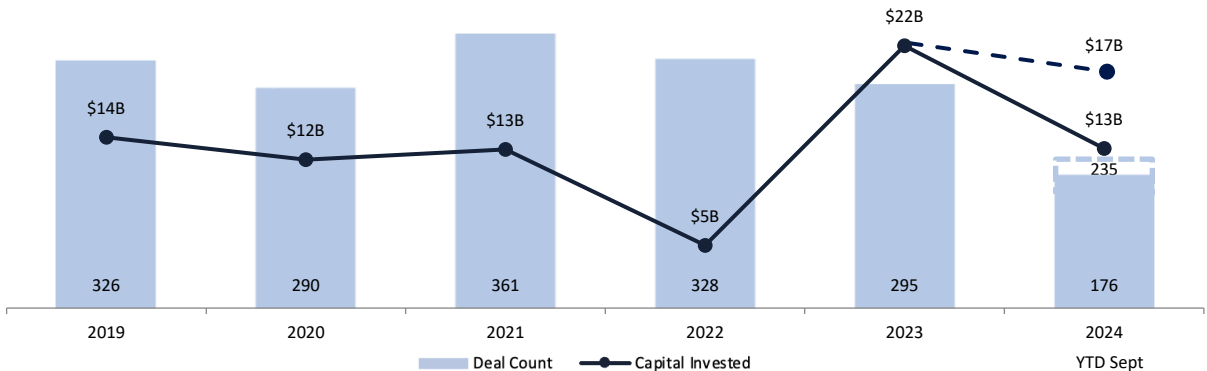
- Consumer M&A deal activity is projected to remain below levels of 2023 with the expectation that the markets will see a rebound in 2025 due to the positive sentiment around interest rate cuts.
- Consumer companies with strong brand recognition, a proven track record of growth, and profitable operations have been attractive targets thus far in 2024, receiving strong interest from strategic and financial buyers alike (i.e., Roark Capital Group's acquisition of Subway for \$9.6B).
- Strategic acquirers have accounted for 67% of all consumer transaction in 2024, with strategic company's focusing on product portfolio expansion and overall offering diversification (i.e., Home Depot's \$18B acquisition of SRS Distribution).

## Canadian Quarterly Deal Volume & Capital Invested



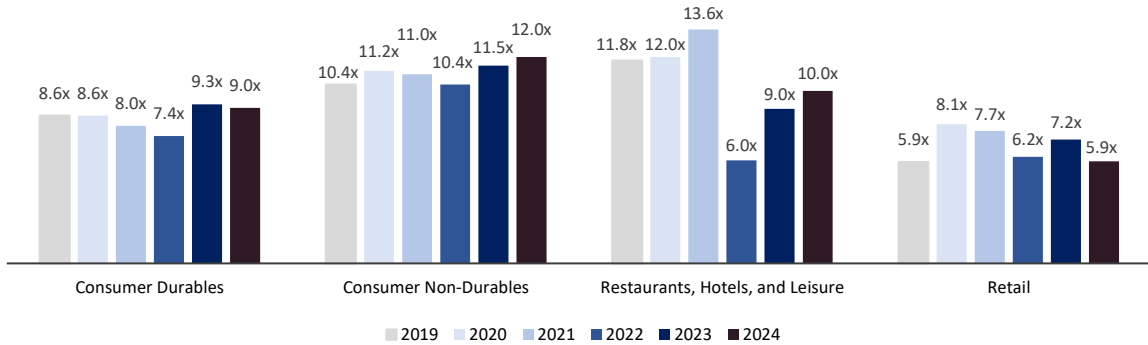
- While the increase in the capital gains tax inclusion rate boosted Canadian M&A deal volume for small businesses in Q2-2024, a decline followed in Q3-2024 and contributed to the ongoing downward trend for the second consecutive year. Despite the decrease in transactions, Canadian M&A has shown resilience, with capital invested rebounding in the last 2 quarters and attributed to a few megadeals.
- Canada's annual inflation rate reached the central bank's 2% target in August as the CPI posted its smallest rate of increase since February 2021. Q3-2024 also witnessed interest rate cuts from the Bank of Canada for the third consecutive time. While these developments are expected to impact mid-market deal-making, particularly among financial sponsors, it remains uncertain whether these changes will drive increased Canadian M&A activity in the final quarter.

## Canadian Yearly M&A Deal Volume & Capital Invested



- Canadian M&A activity has decreased in both deal volume and capital invested over the first three quarters of 2024 when compared to the same period in 2023.
- Acquisitions of Canadian companies continued to be predominately domestic YTD, with ~65% of transactions completed by a Canadian buyer.
- The recent interest rate cuts have the potential to facilitate a more attractive acquisition financing environment for buyers in 2025. Canadian financial sponsors have largely been on the deal making sidelines in 2024 because of higher borrowing costs. In Canada, there is around \$10.4B of private equity dry power and about 26% of that is has been committed for at least 4 years old. There will likely need to be an uptick in deployment in 2025.

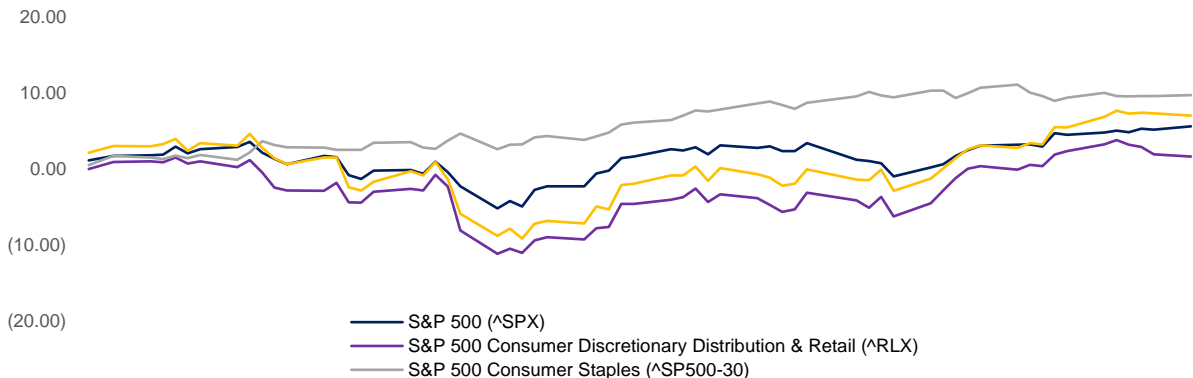
## Median EBITDA Multiples by Subsector



- Multiples across the Consumer Non-Durables and Restaurants, Hotels, and Leisure industries have increased, driven by high demand and consolidation.
- Retail subsectors and Consumer Durables have seen decreases in valuation, driven by rising cost pressures on consumers.
- As consumer preferences increasingly leaned towards experiences over material goods, the Restaurants, Hotels, and Leisure subsector experienced strong demand through Q3-2024. Additionally, there has been heightened activity in the Sports Franchise market, particularly with private equity firms now having the opportunity to invest in the NFL, among other leagues.

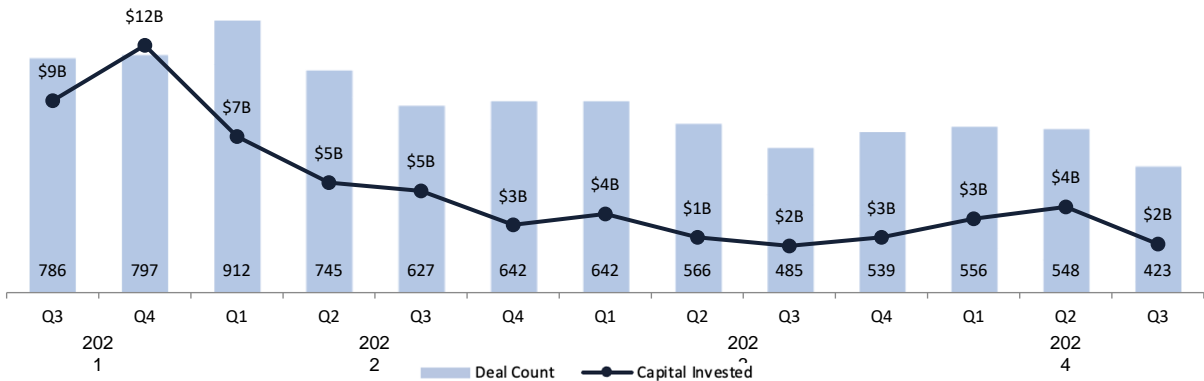
## Public Market Indexes: S&P 500 vs. Market Indexes

\*Q3-2024 relative performance



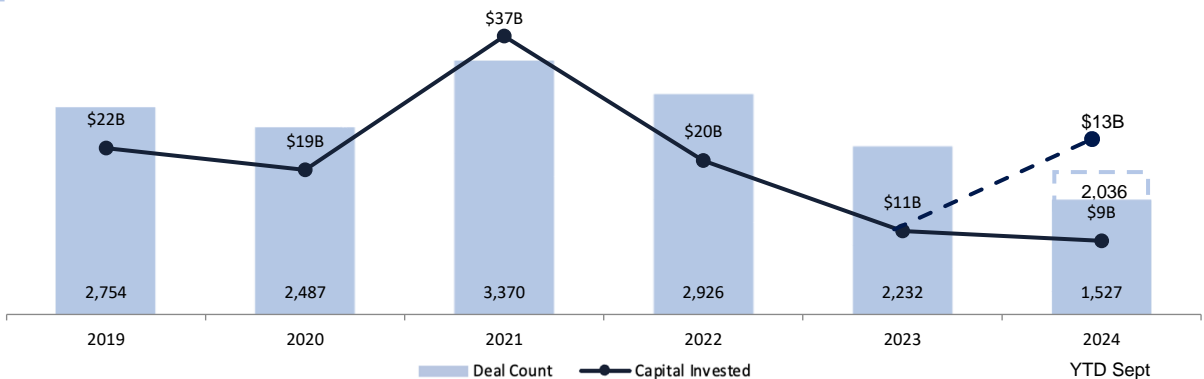
- The Consumer Staples, Consumer Discretionary, and Consumer Discretionary Distribution & Retail indices ended the quarter +4.1%, +1.4%, and -4.0% compared to the S&P 500, respectively.
- The overperformance of the Consumer Staples and Consumer Discretionary indices suggest that investor sentiment has shifted, driven by greater stability in macroeconomic factors, such as interest rate cuts and eased inflation.
- The underperformance of the Consumer Discretionary Distribution & Retail index reflects the recent decrease and weakness in consumer spending on non-essential goods such as clothing and footwear.
- The cautious sign of optimism is shared with the broader public markets, where overall IPO activity (310 this quarter) has outpaced the first two quarters of 2024 (281 and 279, respectively).

## Quarterly Venture Capital Investment



- In the first three quarters of 2024, VC investments totaled nearly \$9B. Despite the low deal volume, in comparison to the last 3 years, the average deal size increased, reflecting investors' focus on companies with proven track records.
- Q3-2024 saw a decline in North American consumer venture capital funding, which is in line with decline seen globally for the sector. We will likely continue to see a trend of greater venture dollars deployed to early-stage companies than later-stage deals, with the emphasis on strong fundamentals to support growth.
- Notable North American consumer investments in the Q3-2024 include that of Athletic Brewing Co. (\$68.1M), Casa Azul (\$58.1M), and Recover 180 (\$51.4M) – all of which are in the beverage category.

## Yearly VC Investment



- Total investments into consumer companies as of YTD September has declined YoY by 30%.
- DTC start-ups have experienced one of the steepest drop-offs in funding. In 2024, less than \$100M of US venture dollars went into the DTC sector compared to the \$5B in 2021.
- An area within consumer that has seen stable growth is the better-for-you food and beverage category as the trend towards consumer health consciousness has persisted amidst inflation. Other areas that have seen an uptick is Consumer Tech, with Maven Ventures raising \$60M for fund IV in Q2-2024 and Patron raising \$100M for its first fund in Q3-2024.
- Despite the uptick in capital invested in the first 3 quarters of 2024, the government's decision to increase the inclusion rate on capital gains remains a significant concern for the Canadian VC industry.



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