



EDGEPOINT

CONSUMER

FALL 2021

Consumer Sector Remains Hot As Deal Flow Is On Pace To Break Records

Consumer M&A transaction volume during the past twelve months exceeded volumes seen in every full-year period of the past decade. Activity was primarily driven by strategic acquirers (including financial buyers with existing platform investments), while purely financial buyers accounted for nearly 30% of all transactions.

Valuations in the space trailed, however, as transaction multiples within the major industries (Food & Beverage, Household and Personal Products, and Consumer Durables and Apparel) have yet to bounce back to 2019 levels.

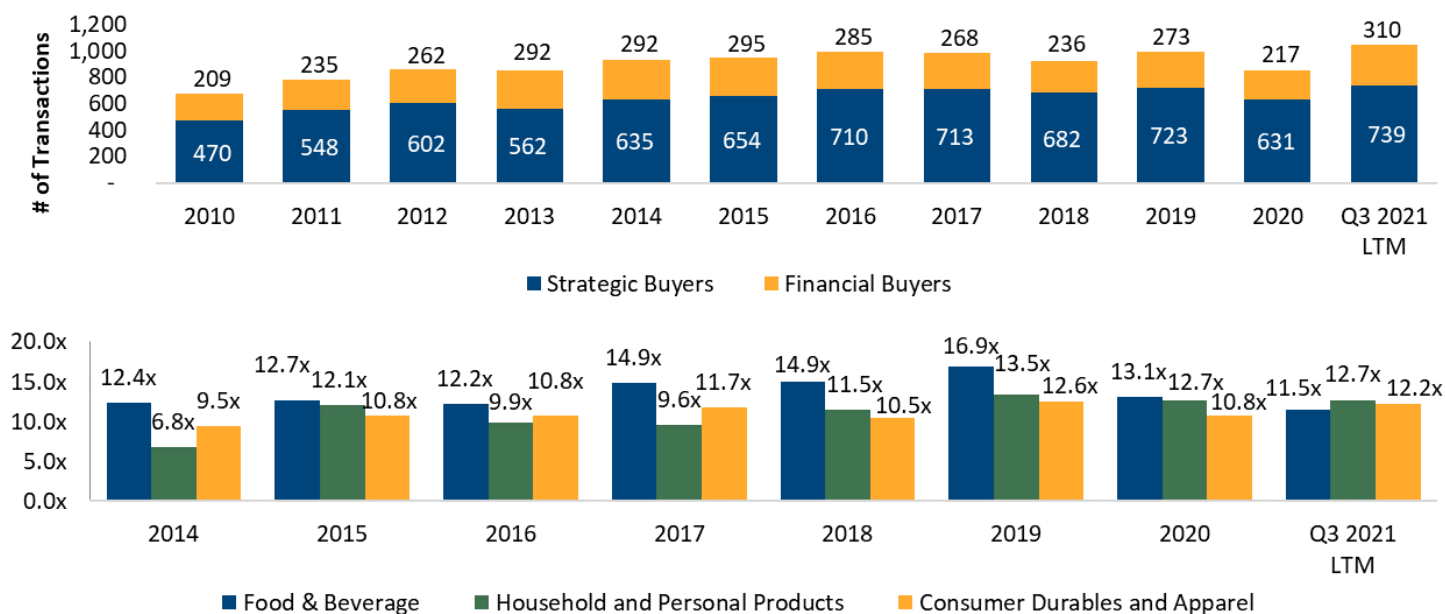
Leading the way was the Household and Personal Products segment, which managed to maintain its valuation multiples coming out of the pandemic at 12.7x, even surpassing Food and Beverage, which has historically enjoyed higher valuations.

Anticipated changes to the capital gains tax rates prompted sellers and investors alike to execute deals quickly over the past two quarters. However, the abundance of opportunities in market led to competition for investor attention, sometimes resulting in reduced interest and valuation levels for many quality companies simply due to investors focusing their efforts on deals they could win.

Looking forward, investors are confident in continued strong deal flow despite the many macro uncertainties that lie ahead, including the potential resurgence of Covid-19, rising inflation, and likely interest rate hikes. Investors were — and still are — flushed with cash and looking to put that dry powder to work. Knowing this, sellers are likely to continue seeking exits that capitalize on the current friendly market environment.








Consumer M&A Transactions by Year

(Strategic Buyers Include Private Equity Owned Companies)



Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Notable Recently Announced and Closed Consumer Transactions

Date: 8/17/21 (Announced)		Overview / Strategic Rationale:	Consumer Durables, Household Appliances
Target:		MTD Holdings Inc. manufactures outdoor power equipment, including garden tractors, lawn trimmers, and mowers. Stanley Black & Decker held a minority stake in the company and recently announced it will be purchasing the remaining 80%.	
Acquirer:		<ul style="list-style-type: none"> The acquisition represents considerable opportunity for synergy generation, both operationally — through price consolidation and leverage — and commercially — through the companies' collective technology investments, strong brands, and global customer relationships. The companies also stand to realize cross-selling opportunities, generating additional commercial upside. 	
Key Metrics:			
Implied Enterprise Value (\$M)	\$2,000		
EV/LTM EBITDA	8.0x		
EV/LTM Revenue	0.8x		
Date: 8/12/2021 (Announced)		Overview / Strategic Rationale:	Food & Beverage, Proteins
Target:		Based in Sao Paulo, Brazil, JBS S.A. is a leading meat processing company that produces a variety of foods, such as processed beef, chicken, and pork, and also by-products.	
Acquirer:		<ul style="list-style-type: none"> The acquisition of Pilgrim's Pride is intended to consolidate corporate functions, streamline administrative efficiencies, and optimize revenues and operational savings through price harmonization and leveraging scale. JBS owns a 80.21% stake in Pilgrim's Pride and recently announced it will acquire the remaining ownership shares of its poultry and pork subsidiary, Pilgrim's Pride Corp. 	
Key Metrics:			
Implied Enterprise Value (\$M)	\$6,669		
EV/LTM EBITDA	7.5x		
EV/LTM Revenue	0.7x		
Date: 8/9/2021 (Announced)		Overview / Strategic Rationale:	Food & Beverage, Proteins
Target:		Cargill Inc. engages in food, agriculture, and industrial products and services, supplying animal nutrition and feed ingredient solutions as well as developing food and beverage ingredients, including eggs and breakfast products, beef, pork, turkey, and more. The company recently announced a joint venture acquisition alongside CGC, and will acquire Sanderson Farms, a major player in the fresh and frozen poultry space.	
Acquirer:	 	<ul style="list-style-type: none"> Sanderson Farms will be integrated within CGC's poultry business, Wayne Farms, adding scale and flexibility to the business. The deal also aims to capitalize on rising poultry prices and heightened demand, compounded by major fast food retailers offering new chicken-based products on their menus (i.e., McDonald's, Popeye's, Wendy's and others). 	
Key Metrics:			
Implied Enterprise Value (\$M)	\$4,400		
EV/LTM EBITDA	4.2x		
EV/LTM Revenue	1.0x		
Date: 7/22/2021 (Closed)		Overview / Strategic Rationale:	Consumer Durables, Home Furnishings
Target:		At Home Group Inc. offers home furnishings, including accent furniture, mirrors, patio cushions, rugs, wall art, and other related products. The company operates approximately 228 stores and is headquartered in Plano, Texas. As of July 22, 2021, At Home Group Inc. was taken private by Hellman & Friedman.	
Acquirer:	HELLMAN & FRIEDMAN	<ul style="list-style-type: none"> At Home Décor adds breadth to Hellman & Friedman's Consumer and Retail portfolio, aligning with Hellman & Friedman's strategy to invest in market-leading businesses with substantial runway for growth. The acquisition also diversifies the firm's exposure into the Consumer sector away from Automotive and Security products and services. 	
Key Metrics:			
Implied Enterprise Value (\$M)	\$4,215		
EV/LTM EBITDA	6.6x		
EV/LTM Revenue	2.0x		

Recently Closed Transactions *(select transactions, not intended to be all-inclusive)*

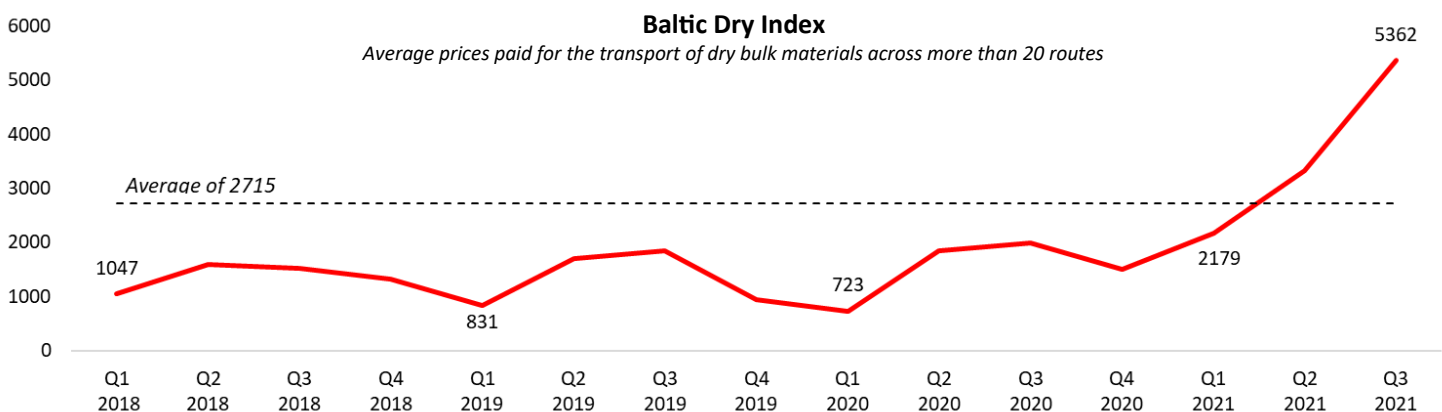
Date	Acquirer	Target	Target Description	Implied EV (\$mm)	Revenue Multiple	EBITDA Multiple
CONSUMER DISCRETIONARY						
8/9/2021	Sun Capital Partners, Inc.	Select Interior Concepts, Inc. (NasdaqCM:SIC)	Select Interior Concepts, Inc. distributes interior building products for residential interior design services markets in the United States.	\$376.5	0.7x	11.7x
7/23/2021	Apollo Management IX LP	The New Home Company Inc.	The New Home Company Inc. designs, constructs, and sells single-family detached and attached homes.	337.3	0.7x	16.1x
7/20/2021	Winnebago Industries, Inc. (NYSE:WGO)	Barletta Boat Company, LLC	Barletta Boat Company, LLC designs, manufactures, and sells pontoon boats.	320.0	2.7x	30.5x
5/5/2021	Sundial Growers Inc. (NasdaqCM:SNDL)	Inner Spirit Holdings Ltd.	Inner Spirit Holdings Ltd. operates a network of recreational cannabis stores under the Spiritleaf brand. It also sells cannabis and accessories through corporate stores and e-commerce operations.	104.4	4.1x	39.1x
FOOD & BEVERAGE						
6/22/2021	Vintage Wine Estates, Inc. (NasdaqGM:VWE)	The Sommelier Company	The Sommelier Company provides independent wine and spirits expertise, private tasting events, and education.	12.0	2.4x	4.0x
RETAIL						
5/13/2021	Bodega Latina Corporation	Smart & Final Stores, Inc.	Smart & Final is a chain of warehouse-style food and supply stores based in Commerce, California, which developed through a series of mergers and expansions. The oldest of the combined companies, Hellman-Haas Grocery, was founded in 1871 in Los Angeles	620.0	0.2x	3.7x

Sources: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Spotlight Discussion: Supply Chain Impact on the Consumer Sector

Consumer demand within the past two years has significantly ramped up and, according to Jonathan Gold, Vice President of Supply Chain and Customs Policy at the National Retail Federation, has been equivalent to adding approximately 50 million new Americans to the economy. Increased demand within the consumer sector, coupled with supply chain failures due to lower manufacturing output and shipping delays, primarily caused by the lasting impacts of the pandemic, have significantly shifted consumer behavior.

Hoarding and panic buying have contributed to rising prices, as has added freight costs. With the holidays around the corner, shortages and increased costs have encouraged consumers to search locally for solutions, with small business demand expected to increase in the near future. Still, these small business face many of the same supply chain challenges as larger companies, if not to a larger extent as they have less influence on suppliers. It is expected that near-term consumer attention will be focused on experience-based purchases as opposed to consumer goods as prices, delays, and scarcity spike.



Source: Trading Economics

Sub-Sector Profile: Food Distribution

M&A activity has remained strong within the food distribution space, reflecting the defensible nature of the industry in the face of rising inflation and Covid-19. The industry's resiliency continues to attract strategic acquirors due to its non-cyclical nature and abundance of M&A targets, allowing for scale via consolidation, geographic growth, and new product development. Financial sponsors have increasingly shown interest in the space as well, drawn by its predictable top-line growth and the ability to integrate tuck-in acquisitions within PE-backed platforms.

Transaction volume in 2021 proved steady through Q2, on track with prior year YTD volume — around 30 transactions. However, Q3 experienced a slowdown in activity, remaining relatively flat going into the final quarter, around 35 transactions YTD. While consolidation remains prevalent in the Food Distribution space, there also remains the uncertainty on total 2021 volume keeping pace with the prior year.











Moreover, valuations have remained high vs. prior periods, despite the industry's lower margin profile. Public comparables

for the industry's leading companies reached an average 16.2x EV/EBITDA multiple in Q2 2021 YTD, a considerable uptick in valuation relative to the prior year period, 8.6x. Performance weakened slightly in Q3, averaging 13.6x.

As the Food Distribution industry emerges from Covid-19, full-service restaurants represent a key segment in the space. With Covid restrictions lessening throughout the restaurant industry, expect backfilled demand to continue driving the segment in the near future. Retail segments, including supermarkets, specialty distributors, and big box retailers continue to enjoy increased demand due to Covid shifting much of the demand from restaurants/food service to retail. Among the other segments, specialty distributors are poised to realize outsized growth as industry trends continue pointing to consumers demanding healthier, better-for-you products that are ethically and sustainably supported.

As demand for healthier options drives growth in the specialty distributor channel and natural foods channel, expect heightened trading multiples to drive premium values.

Active Buyers — Food Distribution

Seller	Buyer	Transaction Close Date	Total Transaction Value (USD mm)	Business Description
 JM SWANK	 BRENNTAG	06/23/2021	\$304mm	JM Swank, LLC distributes food ingredients primarily in the United States, including grains, beans and breading products, cocoa, chips, nuts, sweeteners and other related products.
 DECOPAC	 KOHLBERG & COMPANY	05/17/2021	\$550mm	DecoPac, Inc. supplies cake and bakery products for professional cake decorators and bakeries in the United States and internationally.
 BWR BRANDS WITHIN REACH	 ZACHERT PRIVATE EQUITY	09/29/2020	\$16mm	Brands Within Reach, LLC engages in marketing and distributing food and beverages in North America, including natural spring and mineral water and ready-to-drink beverages.
 FUNC FOOD	 CELSIUS LIVE FIT	09/11/2019	\$25mm	Func Food Group provides healthy, functional beverages and foods, including superfoods based on raw ingredients, nutritious sugar-free drinks and other related products.
 Prinova NAGASE Group	 NAGASE Nagase America LLC	06/03/2019	\$620mm	Prinova Group LLC distributes functional ingredients, including amino acids, branded ingredients, sweeteners, essential oils, food and beverage and more.

Sub-Sector Profile: Skin & Hair Products

Covid-19 had a particularly unfavorable impact on the overall US Cosmetic & Beauty Products Manufacturing industry relative to more resistant industries, such as Food Distribution.

Reduced disposable income plagued the industry, historically driven by premiumization. Consumers opted for lower margin, less expensive items during the pandemic when in-person interaction came to a halt, placing a drag on the industry's growth. Lower disposable income, coupled with a sharp decline in consumer confidence, led the way for a nearly 20% drop in total revenue from 2019 to 2020.







Transaction volume reflected the sharp decline in revenue, accounting for only 41 deals globally in 2020 compared to 57 deals during the prior year and 86 deals in 2016, when activity peaked. 2021 levels appear to be rebounding with 39 closed deals through Q3 2021, on pace with pre-Covid numbers. Low barriers to entry continue to encourage new players, while many existing, small-to-medium companies in the space remain distressed from Covid – making the industry ripe for continued M&A for large strategics and PE firms with dedicated platforms.

The US market totaled \$40.6B in total revenue during 2020, down from 48.5B in 2019. Skin care products (facial creams; body, hand, and face lotions; and sunscreen, sun tan lotions, and oils) comprise 24.9% of current 2021 YTD sales (\$43.6B), representing a market size of around \$10.9B in the U.S. alone. Hair care products (hair color, shampoos, conditioners, rinses, hair sprays, pomades, mousses, gels, and restorative treatments), on the other hand, fell a little behind, accounting for 19.2% of total 2021 YTD sales, or roughly \$8.4B in market size.

As the skin and hair care companies continue to rebound from the lingering effects of the pandemic, they will also have to navigate pre-Covid trends to capture sustained growth. A shift toward “natural beauty” continues to slow demand for some hair and skin products, while U.S. companies, in particular, also face branding and quality challenges as the global market still perceives European products as being superior.

Expect sustained M&A activity in the near future, as large strategics search for niche companies focused on natural and eco-friendly products.

Active Buyers — Skin & Hair Products

Seller	Buyer	Transaction Date	Total Transaction Value (USD mm)	Business Description
 Arctic Fox	 LG HOUSEHOLD & HEALTHCARE	08/31/2021	\$100mm	Arctic Fox manufactures hair care products that are vegan and cruelty-free and is based in Cerritos, CA.
 BENTLEY LABS	THG	05/10/2021	\$255mm	Bentley Laboratories, LLC formulates and manufactures HBA products for cosmetics and pharmaceutical industries, including skin care, hair care, and bath and body products; and creams, OTC, lotions and more.
DECIEM	 ESTÉE LAUDER COMPANIES	02/23/2021	\$1,000mm	DECIEM Inc. manufactures and sells beauty products, offering skincare, makeup, body, and hair products as well as cleaners, mists, serums, hydrators, oils and more.
Perricone MD	THG	09/30/2020	\$60mm	NV Perricone LLC manufactures and sells anti-aging skincare products, such as skin care treatment products, moisturizers, exfoliators and toners and other related products.
 CREMO <i>Astonishingly Superior®</i>	 Edgewell™ PERSONAL CARE	08/04/2020	\$235mm	Cremo Company, LLC manufactures and sells shaving products and personal products and is located in Laguna Beach, CA.

What We Are Reading

The Future of Wellness: Connected and customized (McKinsey & Company, July 2021)

The Wellness market is estimated to be \$1.5 trillion globally, with no sign of slowing down. The market is expected to clip along at a 5-10% per annum rate, driven by consumer demand for health, sleep, appearance, and fitness aids.

As technology develops and consumer preferences change, innovative solutions for Wellness offer companies tremendous upside as they continue to introduce new products to the market. So what does Wellness look like in 2030? McKinsey explores the current consumer trends sculpting the Wellness market, including the prevalence of at-home medical tests, the internet of things, and more.

Click [here](#) to read

The Global Consumer: Changed For Good (PwC, June 2021)

Covid-19 has deeply impacted consumer behavior and preference, especially as younger generations begin to garner more and more spending power. Younger generations are increasingly preferring online grocery shopping as opposed to brick and mortar. What was once a method of maintaining social distancing has now turned into a convenient option that consumers are still choosing to utilize.

Health-conscious and eco-friendly products, buying local, and consumer sensitivity to pricing have all become increasingly prevalent due to the virus. Whether Covid prompted the trend or accelerated it, there is no doubt that consumer companies are frantically adapting to these changing behaviors in an attempt to capitalize on trending opportunities. PWC details the new consumer environment and how Covid continues to play a part in all of it.

Click [here](#) to read

Traceability: The Next Supply Chain Revolution (Bain & Company, September 2021)

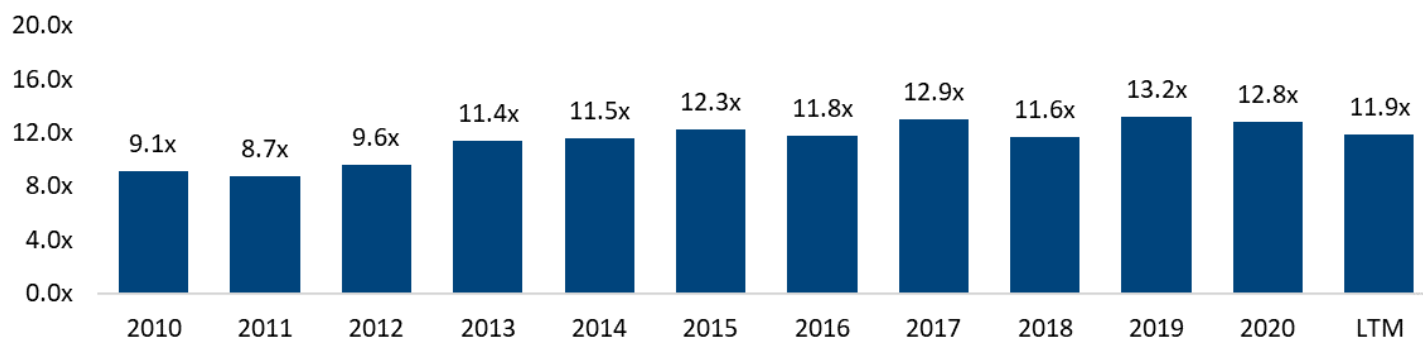
Traceability has revolutionized the supply-chain ecosystem. What was once used to subside consumer impatience has now become an integral part of changing consumer preferences and trends. Traceability now allows for raw material tracking, among other applications, ensuring sustainable and ethical sourcing and disposal. Strong alignment with growing trends has bolstered the technology, which is expected to be used in a larger capacity going forward.

The technology is also benefitting companies as they identify unnecessary resource consumption and fulfill orders more efficiently, which, in turn, has been translating into higher revenues and profits.

Click [here](#) to read

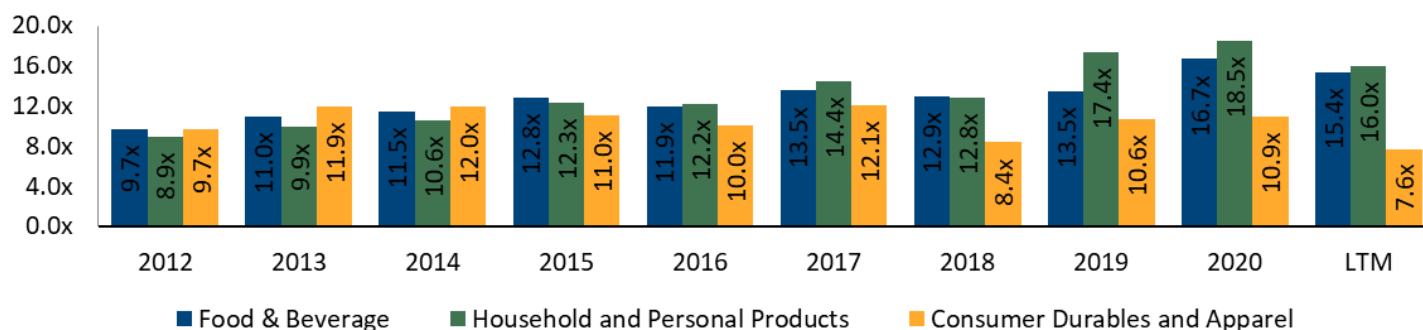
Public Company Trading Multiples

Consumer Annual Public EV/EBITDA Multiples



Source: CapIQ, public trading data as of September 30, 2021

Consumer Public EV/EBITDA Multiples by Sector



Source: CapIQ, public trading data as of September 30, 2021

Representative Edge Point Consumer Transactions



Edge Point is an **independent, advisory-focused, investment banking** firm serving the **middle market**.

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RESULTS with
INTEGRITY™