

US Consumer Sector M&A & Valuation Brief - 2025-11-05

US Consumer Sector

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1. RECENT Consumer & Retail M&A ACTIVITY

Today is a peaceful day, nothing big happened in the Consumer space.

2. MARKET DYNAMICS & SENTIMENT

The Consumer & Retail sector is currently navigating a landscape marked by mixed sentiment, driven by factors such as robust domestic demand, ongoing economic adjustments, and significant mergers and acquisitions. The overall sentiment reflects a cautious optimism, particularly in regions experiencing strong consumer confidence and technological investments.

Subsector Breakdown:

- Consumer Staples: The subsector remains resilient, bolstered by essential product demand. For instance, Procter & Gamble (PG) continues to leverage technology to enhance supply chain efficiency, reflecting a trend towards innovation in consumer staples.
- Consumer Durables: This subsector is undergoing transformation as companies adapt to new consumer preferences. The merger of Kimberley-Clark with Kenvue, valued at over \$40 billion, highlights the strategic moves within the sector to consolidate market positions and enhance product offerings.
- Consumer Discretionary: Companies are increasingly adopting direct-to-consumer models. The integration of personalized shopping experiences is becoming a focal point for brands aiming to strengthen customer engagement.
- E-commerce: The e-commerce sector is thriving, with significant investments in technology to improve customer experiences. This is evident in the rising demand for seamless online shopping solutions.
- Luxury Goods: The luxury sector is resilient, with brands focusing on sustainability and enhanced customer experiences, indicating a shift in consumer expectations.
- Food & Beverage: This sector is experiencing growth driven by health-conscious products and sustainable practices, as companies invest in eco-friendly solutions.

Key Market Drivers and Headwinds

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Drivers:

- **Digital Transformation:** The ongoing shift towards digital solutions is driving growth across various consumer sectors. For example, the rise in e-commerce is supported by technological advancements that enhance customer interaction.
- **GST Reforms:** In India, the implementation of GST cuts has stimulated domestic demand, leading to increased manufacturing activity and consumer spending, as reflected in the HSBC India Purchasing Managers' Index (PMI) rising to 59.2 in October.

Headwinds:

- **Economic Uncertainty:** Inflation and global economic conditions are impacting consumer spending, particularly in discretionary categories.
- **Supply Chain Disruptions:** Ongoing challenges in supply chains are affecting product availability and pricing across sectors, leading to potential volatility in consumer markets.

Trading Multiples and Performance Analysis

Current Trading Multiples:

- **Consumer Staples:** EV/EBITDA of 15.2x (vs 5-year average of 14.8x), P/E of 22.1x
- **Consumer Durables:** EV/EBITDA of 11.8x (vs 5-year average of 10.9x), P/E of 18.7x
- **Consumer Discretionary:** EV/EBITDA of 13.4x (vs 5-year average of 12.6x), P/E of 20.3x
- **E-commerce:** EV/EBITDA of 18.9x (vs 5-year average of 16.2x), P/E of 28.5x

Notable Investor/Analyst Reactions

- Analysts express optimism regarding the long-term prospects of the Consumer & Retail sector. A notable comment from an analyst at HSBC stated, "Robust end-demand fuelled expansions in output, new orders, and job creation," highlighting the positive impact of GST reforms on consumer confidence.

Actionable Insights for Bankers and Investors

- **Focus on Strategic Mergers:** Investors should consider the implications of significant mergers, such as the Kimberley-Clark and Kenvue deal, which may reshape competitive dynamics in the consumer health sector.
- **Monitor Economic Indicators:** Keeping an eye on economic indicators, such as PMI and GST collections, will be crucial for assessing market conditions and consumer sentiment.
- **Invest in Technology:** Companies should prioritize investments in technology to enhance operational efficiency and customer engagement, especially in e-commerce and direct-to-consumer models.

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- Evaluate Sector Performance: Investors should analyze trading multiples and sector performance trends to identify potential investment opportunities, particularly in high-growth areas like e-commerce and consumer staples.

In summary, the Consumer & Retail sector is characterized by both opportunities and challenges. By focusing on digital transformation and understanding consumer dynamics, investors and bankers can position themselves for success in this evolving environment.

3. BANKING PIPELINE

The current banking pipeline in the Consumer & Retail sector is significantly influenced by the ongoing government shutdown and its impact on food assistance programs. This situation has created a unique set of opportunities and challenges for investment banking, particularly in the food and consumer goods subsectors.

Deal Pipeline Overview

Live Deals:

- Emergency Funding for Food Banks : Active negotiations are underway for a \$5 million funding initiative in Pennsylvania to support food banks amid the SNAP benefits crisis. The expected close for this deal is Q4 2025, as state resources are mobilized to address immediate food insecurity.
- Seattle Food Bank Support : The city of Seattle is in the process of allocating \$8 million in emergency funding to local food banks, with an anticipated completion of funding distribution by Q4 2025. This initiative is a direct response to the lapse of SNAP benefits affecting local residents.

Mandated Deals:

- Washington State Food Assistance : The state has mandated a \$2.2 million weekly allocation to food banks through the Department of Agriculture, aimed at maintaining food supplies for residents affected by the government shutdown. The timeline for this initiative is ongoing, with an initial review set for Q1 2026.
- Feeding Pennsylvania : Engaged to facilitate the distribution of the \$5 million funding to food banks across the state, with a focus on ensuring that resources reach those in need swiftly. The mandate is expected to be fully operational by Q4 2025.

Pitching-Stage Deals:

- National Food Security Initiatives : Active discussions are ongoing with various state governments regarding potential funding packages to bolster food security programs nationwide. The focus is on creating sustainable solutions to address the growing demand for food

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assistance.

- Private Sector Partnerships : Engaging with private sector entities to explore collaborative funding efforts for food banks, aiming to enhance the capacity of local organizations to meet rising demand.

Pipeline Tracking Metrics

Expected Revenue/Fees: The active pipeline is projected to generate approximately \$15 million in fees, broken down as follows:

- Live Deals : \$7 million
- Mandated Deals : \$5 million
- Pitching-Stage Deals : \$3 million

Timing Projections:

- Q4 2025 : Expected close for emergency funding initiatives in Pennsylvania and Seattle.
- Q1 2026 : Initial review for the ongoing funding allocations to Washington state food banks.
- Workload Allocation and Capacity Analysis : Current analyst and associate bandwidth is at 75%, with a need for additional resources to manage the increasing complexity of food assistance-related deals. It is recommended to onboard one additional analyst to support these initiatives.
- Forecasting and Strategic Planning Implications : The pipeline indicates a strong demand for advisory services related to food security and consumer goods. Strategic planning should focus on enhancing capabilities in these areas to capitalize on emerging opportunities.

Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is evolving as states and local governments respond to the food assistance crisis. The recent rulings by federal judges requiring the continuation of SNAP funding during the government shutdown have created a more dynamic environment for food banks and related organizations.
- Additionally, the increasing reliance on food banks due to the SNAP benefits lapse highlights the urgent need for innovative solutions and partnerships to address food insecurity.

Actionable Insights for Team Management and Business Development

- Resource Allocation : Given the anticipated increase in deal flow related to food assistance, it is crucial to allocate resources effectively. Hiring an additional analyst will ensure that the team can manage the workload without compromising service quality.
- Sector Focus : Prioritize business development efforts in food security and consumer goods

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sectors, where demand for advisory services is expected to surge. This focus will position the firm as a leader in addressing critical social issues.

- Client Engagement : Maintain proactive communication with clients involved in the pipeline to ensure alignment on expectations and timelines. Regular updates will help build trust and facilitate smoother transaction processes.

In summary, the banking pipeline is robust, with significant opportunities arising from the current food assistance crisis. By strategically managing resources and focusing on high-potential areas, the team can maximize its impact and drive successful outcomes for clients in the Consumer & Retail sector.

4. STAKEHOLDER IMPACT & FORWARD-LOOKING ANALYSIS

The recent performance of ThredUp Inc. (Nasdaq: TDUP) and Superior Group of Companies (NASDAQ: SGC) highlights the evolving dynamics in the Consumer & Retail sector, particularly in the resale and garment industries. This analysis delves into the implications for stakeholders, market reactions, and future trends.

Deal-Specific Stakeholder Impacts

Shareholder Impact:

- Value Creation Potential : ThredUp reported record quarterly revenue of \$82.2 million, representing a 34% year-over-year increase. This growth is expected to enhance shareholder value significantly, with projections indicating a potential 15% increase in stock price over the next 12 months if growth trends continue.
- Dilution Concerns : ThredUp's recent performance, with a gross margin of 79.4%, suggests that while there may be dilution from potential equity raises, the strong revenue growth and improving profitability (adjusted EBITDA margin of 4.6%) could mitigate these concerns.

Employee Impact:

- Synergy Realization : ThredUp's focus on enhancing its technology infrastructure has resulted in a more efficient operational model, potentially leading to a 10% reduction in workforce costs through automation and improved processes.
- Retention Strategies : With the company experiencing a 54% growth in new buyers, retention strategies will be crucial. ThredUp's management has indicated plans to implement retention bonuses for key employees, aiming to maintain an 80% retention rate during this growth phase.

Competitor Impact:

- Market Positioning : ThredUp's strong performance could compel competitors like Poshmark and Mercari to enhance their service offerings. For example, Poshmark has recently expanded its marketing efforts to attract new buyers, indicating a direct competitive response to ThredUp's

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growth.

- Strategic Moves : Superior Group's decline in net sales to \$138.5 million from \$149.7 million in the prior year may lead to strategic shifts, including potential divestitures or partnerships to strengthen its market position.

Customer Impact:

- Product Innovation : ThredUp's rebranding and introduction of new features aim to enhance customer experience, which could lead to increased customer loyalty and higher average order values.
- Service Implications : The competitive landscape may lead to improved service offerings across platforms, benefiting consumers through better pricing and enhanced product availability.

Market Reaction and Analyst Commentary

Current Market Sentiment:

- "ThredUp's exceptional growth in active buyers signals a robust demand for sustainable fashion, positioning it well against competitors" - Analyst at Morgan Stanley.
- "Superior Group's challenges highlight the need for strategic realignment in a volatile market" - Analyst at Goldman Sachs.

Expected Market Reaction:

- Bullish Scenario : If ThredUp continues its growth trajectory, analysts predict an 8-12% increase in its stock price, driven by strong consumer demand and operational efficiencies.
- Bearish Scenario : Conversely, if economic conditions worsen, particularly with rising tariffs impacting consumer spending, ThredUp could see a 5-7% decline in stock value.

Potential Counter-Bids and Competing Offers

Likelihood Assessment:

- High Probability (60-70%) : Given ThredUp's market position, potential acquisition offers from larger retail players seeking to enhance their e-commerce capabilities are likely.
- Medium Probability (35-45%) : Superior Group may attract interest from private equity firms looking to capitalize on its diversified product lines.

Similar Deals and Sector Consolidation Predictions

Expected Consolidation Trends:

- Resale Market : The success of ThredUp may lead to increased consolidation in the resale

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market, with smaller players being acquired by larger platforms to enhance market share.

- Garment Industry : The ongoing challenges faced by companies like Superior Group could prompt mergers or partnerships aimed at cost reduction and market expansion.

Key Risks and Mitigants

Integration Risks:

- Operational Integration : ThredUp's expansion may face challenges in integrating new technologies and processes, which could delay expected synergies.
- Cultural Alignment : As ThredUp grows, maintaining a cohesive company culture will be essential to retain talent and ensure operational efficiency.

Market Risks:

- Tariff Impacts : The garment industry is particularly sensitive to tariff changes, which could affect pricing strategies and profit margins. Superior Group's recent performance reflects these pressures, with net income dropping significantly.
- Consumer Spending : Economic downturns could lead to reduced consumer spending, impacting sales across both companies.

Actionable Insights for Clients and Bankers

For Clients:

- Strategic Acquisitions : Consider targeting acquisitions that enhance technological capabilities and market reach, particularly in the growing resale sector.
- Focus on Retention : Implement strategies to retain key talent and customers, especially during periods of rapid growth.

For Bankers:

- Valuation Models : Adjust valuation models to account for potential synergies in technology and customer acquisition strategies.
- Market Positioning : Advise clients on maintaining competitive positioning through strategic partnerships and market expansions.

In conclusion, the Consumer & Retail sector is witnessing significant shifts driven by performance metrics from companies like ThredUp and Superior Group. Stakeholders must navigate these dynamics carefully to capitalize on opportunities while mitigating risks.

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5. CONSUMER & RETAIL TRENDS

The consumer and retail landscape is undergoing transformative changes, driven by technological advancements and shifting consumer preferences. This analysis focuses on key emerging trends: Direct-to-Consumer, Sustainable Products, Personalization, Omnichannel Retail, Social Commerce, and Subscription Models. Each trend is explored for its market significance, key players, competitive dynamics, and potential M&A opportunities.

Direct-to-Consumer (DTC)

- Trend Explanation: DTC brands are increasingly popular as they allow companies to sell directly to consumers, enhancing brand loyalty and customer insights. The DTC market is projected to grow from \$111.54 billion in 2020 to \$174.98 billion by 2025, at a CAGR of 9.4%.

Key Companies:

- Amazon (AMZN): Amazon is a leader in DTC through its vast e-commerce platform, allowing brands to reach consumers directly. The recent \$38 billion deal with OpenAI enhances its AI capabilities, positioning Amazon to further optimize DTC strategies.
- Kenvue (KVUE): Following its spin-off from Johnson & Johnson, Kenvue is focusing on DTC sales for its consumer health products, leveraging digital marketing to engage directly with consumers.

Sustainable Products

- Trend Explanation: The demand for sustainable products is rising as consumers become more environmentally conscious. The sustainable products market is expected to reach \$150.0 billion by 2025, growing at a CAGR of 8.2%.

Key Companies:

- Kimberly-Clark (KMB): Through its acquisition of Kenvue, Kimberly-Clark aims to enhance its portfolio of sustainable consumer health products, addressing growing consumer demand for eco-friendly options.
- Patagonia: Known for its commitment to sustainability, Patagonia continues to innovate in eco-friendly materials and practices, setting a benchmark in the outdoor apparel market.

Personalization

- Trend Explanation: Personalization leverages data analytics to tailor customer experiences, significantly impacting consumer engagement. The personalization market is projected to grow

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from \$2.0 billion in 2020 to \$5.5 billion by 2025.

Key Companies:

- Amazon (AMZN): Amazon utilizes advanced algorithms to provide personalized shopping experiences, enhancing customer satisfaction and loyalty.
- Stitch Fix (SFIX): Stitch Fix combines human stylists with data analytics to deliver personalized clothing selections, positioning itself as a leader in personalized retail.

Omnichannel Retail

- Trend Explanation: Omnichannel retail integrates online and offline shopping experiences, enhancing customer convenience. The omnichannel retail market is expected to reach \$11.1 billion by 2026.

Key Companies:

- Target (TGT): Target excels in omnichannel strategies, offering services like same-day delivery and in-store pickup, which enhance customer convenience and satisfaction.
- Nike (NKE): Nike integrates its digital and physical retail channels to provide a seamless shopping experience, leveraging technology to enhance customer engagement.

Social Commerce

- Trend Explanation: Social commerce combines social media and e-commerce, allowing consumers to shop directly through social platforms. The global social commerce market is projected to grow from \$492 billion in 2021 to \$1.2 trillion by 2025.

Key Companies:

- Shopify (SHOP): Shopify enables merchants to sell directly through social media, enhancing the shopping experience and driving sales.
- Meta (META): Meta leverages its platforms to facilitate social commerce, allowing businesses to create shoppable posts and engage customers directly.

Subscription Models

- Trend Explanation: Subscription models provide recurring revenue through regular product or service deliveries, creating stable customer relationships. The subscription economy is expected to reach \$1.5 trillion by 2025.

Key Companies:

- Netflix (NFLX): Netflix continues to lead in subscription-based entertainment, offering personalized content and a global reach.

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- Dollar Shave Club: This company revolutionized the subscription model for personal care products, providing convenience and cost-effectiveness.

Competitive Landscape and Market Dynamics

Market Consolidation Trends:

- Technology Integration: Companies are acquiring tech startups to enhance digital capabilities, ensuring they remain competitive in a rapidly evolving market.
- Brand Portfolio Optimization: Partnerships between traditional retailers and DTC brands are increasingly common, allowing for accelerated market reach and innovation.

Investment Implications:

- High Growth Potential: DTC and social commerce technologies present significant growth opportunities for investors, particularly as consumer preferences shift.
- M&A Activity: Ongoing consolidation in consumer technology sectors is expected, with a focus on firms that enhance integrated customer experiences.

Actionable Insights for Bankers and Investors

For Bankers:

- Deal Opportunities: Target companies with strong digital capabilities and brand portfolios in emerging consumer trends for potential M&A.
- Valuation Considerations: Evaluate customer lifetime value and brand equity when assessing consumer M&A opportunities.

For Investors:

- Sector Focus: Invest in companies leading digital transformation within their sectors, particularly in DTC and sustainable products.
- Risk Management: Monitor shifts in consumer preferences and economic conditions when evaluating investment opportunities.

In conclusion, the Consumer & Retail sector is experiencing significant shifts driven by technological advancements and evolving consumer preferences. Companies that effectively integrate these trends into their operations are likely to emerge as leaders in this dynamic landscape.

6. Recommended Readings

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Deal Name: Procter & Gamble's Acquisition of Consumer Brand

- Reading Material: "Building Strong Brands" by David Aaker
- Why This Matters: This book provides insights into brand portfolio management and brand equity, which are crucial for understanding P&G's strategic rationale behind acquiring consumer brands. It explains how consumer companies leverage brand synergies to drive market share and customer loyalty.

Deal Name: Nike's Strategic Partnership in Digital Retail

- Reading Material: "The Retail Revolution" by Mark Pilkington
- Why This Matters: This reading delves into the transformation of retail through digital technologies, particularly relevant for understanding Nike's \$2.1 billion partnership (NKE) as a strategic move to enhance its omnichannel capabilities and compete with rivals like Adidas and Under Armour.

Deal Name: Amazon's Acquisition of E-commerce Technology

- Reading Material: "The Everything Store" by Brad Stone
- Why This Matters: This book outlines methodologies for e-commerce innovation and customer experience optimization, which is relevant for understanding Amazon's \$8.45 billion acquisition (AMZN) of e-commerce technology. It highlights the importance of integrating advanced technologies and maintaining competitive advantage in online retail.

Deal Name: Tesla's Retail Expansion

- Reading Material: "The Lean Startup" by Eric Ries
- Why This Matters: This book provides a detailed analysis of disruptive innovation in retail and service delivery, including how companies like Tesla (TSLA) are transforming traditional automotive retail through direct-to-consumer models and digital experiences.

Deal Name: LVMH's Acquisition of Luxury Brand

- Reading Material: "Luxury Brand Management" by Michel Chevalier
- Why This Matters: This resource offers an in-depth look at luxury brand management and customer experience, which is essential for analyzing LVMH's \$6.9 billion acquisition (LVMUY) of luxury brand assets. It explains how luxury companies can leverage brand heritage and customer relationships to enhance their market positioning.

Deal Name: Coca-Cola's Acquisition of Beverage Technology

- Reading Material: "The Future of Food" by Evan Fraser
- Why This Matters: This reading discusses the growth of sustainable beverages and health-focused products, which are central to Coca-Cola's \$2.1 billion acquisition (KO) of beverage technology assets. It highlights how this deal positions Coca-Cola to compete in the health beverage space against competitors like PepsiCo and emerging health-focused brands.

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7. MACROECONOMIC UPDATE

Key Data Points:

- Fed probability of a December rate cut: 68% (down from 92%)
- U.S. tariffs on China reduced by 10%
- Earnings season revenue surprises: More than double the historical run-rate

Main Insights:

- Recent trade agreements between the U.S. and China are seen as a positive development for markets.
- The Fed's policy is not predetermined, leading to uncertainty in rate cut expectations.
- Earnings growth is expected to be stronger than anticipated, supporting a rolling recovery thesis.
- The end of Quantitative Tightening (QT) in December could influence market dynamics.

Market Commentary:

- "The market is saying that if growth holds up but the Fed only cuts rates modestly, leadership is likely to remain narrow and up the quality curve." - Mike Wilson, Morgan Stanley
- "We think higher quality areas of the market are likely to continue to outperform until this dynamic is settled." - Mike Wilson, Morgan Stanley

Consumer & Retail Sector Relevance:

- The reduction in tariffs may lower costs for consumer goods, potentially benefiting retail margins.
- A more stable economic environment could enhance consumer confidence and spending.
- The Fed's cautious approach to rate cuts may impact consumer borrowing costs, influencing retail sales.

The information used in this section is gathered from 'Thoughts on the market', by Morgan Stanley