

US Consumer Sector M&A & Valuation Brief - 2025-09-22

Technology, Media & Telecommunications Sector

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

2. MARKET DYNAMICS & SENTIMENT

The Consumer & Retail sector is currently navigating a landscape marked by evolving consumer preferences and strategic shifts among major players. Sentiment within the sector reflects a cautious optimism, driven by trends such as health consciousness and digital transformation, while facing challenges from economic uncertainties and supply chain disruptions.

Subsector Breakdown:

- Consumer Staples: This subsector remains robust, with companies like PepsiCo (NASDAQ: PEP) focusing on innovation and efficiency. PepsiCo's recent engagement with Elliott Investment Management highlights a commitment to enhancing operational performance and brand strength.
- Consumer Durables: Companies in this space are adapting to changing consumer demands, with a focus on sustainability and technology integration. The emphasis on product innovation is evident as brands strive to maintain market relevance.
- Consumer Discretionary: The sector is witnessing a shift towards personalized experiences, exemplified by Starbucks (NASDAQ: SBUX) under CEO Brian Niccol, who is reimagining the food menu to align with premium coffee offerings.
- E-commerce: This subsector continues to thrive, driven by advancements in technology and changing shopping behaviors. Companies are increasingly exploring omnichannel strategies to enhance customer engagement.
- Luxury Goods: The luxury market is resilient, with brands prioritizing sustainability and unique customer experiences to attract a discerning clientele.
- Food & Beverage: Growth in this sector is propelled by health-focused products, with Starbucks expanding its protein and gluten-free offerings to cater to health-conscious consumers.

Key Market Drivers and Headwinds

Drivers:

- Health Consciousness: The surge in demand for high-protein and gluten-free products is reshaping consumer preferences. Starbucks' introduction of protein cold foam is a strategic move to capitalize on this trend, reflecting a broader industry shift towards health-oriented offerings.
- Digital Transformation: The integration of technology in retail, particularly through e-commerce platforms, is driving growth. Companies are leveraging data analytics to enhance customer

US Consumer Sector M&A & Valuation Brief - 2025-09-22

Technology, Media & Telecommunications Sector

experiences and streamline operations.

Headwinds:

- Economic Uncertainty: Inflation and economic fluctuations are impacting consumer spending, particularly in discretionary categories. This uncertainty may lead to cautious purchasing behavior among consumers.
- Supply Chain Challenges: Ongoing disruptions continue to affect product availability and pricing, posing challenges for companies across the sector.

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 Consumer & Retail sector's adaptability to changing consumer trends. A notable sentiment from an analyst regarding PepsiCo's strategy states, "The path back to winning is clear and achievable," emphasizing the potential for operational improvements and brand revitalization.

Actionable Insights for Bankers and Investors

- Invest in Health-Oriented Brands: Given the rising consumer interest in health and wellness, investors should consider companies that are innovating in this space, such as Starbucks with its

US Consumer Sector M&A & Valuation Brief - 2025-09-22

Technology, Media & Telecommunications Sector

new protein offerings.

- Monitor Digital Trends: Staying abreast of technological advancements in e-commerce and retail will be crucial for identifying investment opportunities.
- Evaluate Strategic Partnerships: Companies should explore collaborations that enhance their product offerings and market reach, particularly in the context of health and sustainability.
- Assess Valuation Metrics: Investors should carefully analyze trading multiples and sector performance to make informed decisions, especially in high-growth areas like e-commerce and consumer staples.

In conclusion, the Consumer & Retail sector is poised for transformation as companies adapt to evolving consumer preferences and market dynamics. By focusing on health trends and leveraging technology, investors and bankers can navigate this complex landscape effectively.

3. BANKING PIPELINE

The current banking pipeline in the Consumer & Retail sector showcases significant activity, particularly in the food distribution space. Notably, the potential merger between Performance Food Group (PFGC) and US Foods (USFD) is a focal point, reflecting strategic consolidation trends in the industry.

Deal Pipeline Overview

Live Deals:

- Performance Food and US Foods Merger Discussions : Both companies are currently sharing confidential information as they explore a potential merger. This deal is in the early stages, with expectations for further developments in Q2 2026 as they evaluate synergies and operational efficiencies.

Mandated Deals:

- Performance Food (PFGC) : Engaged to assess the strategic implications of a merger with US Foods, focusing on enhancing market share and distribution capabilities. The timeline for this evaluation is projected for Q2 2026.
- US Foods (USFD) : Mandated to explore potential synergies with Performance Food, with an emphasis on optimizing supply chain efficiencies and expanding product offerings.

Pitching-Stage Deals:

- Sysco Corporation (SYY) : Actively pitching to acquire smaller regional distributors to enhance its market presence and diversify its product portfolio. Discussions are ongoing, with a focus on improving operational capabilities.

US Consumer Sector M&A & Valuation Brief - 2025-09-22

Technology, Media & Telecommunications Sector

Pipeline Tracking Metrics

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

- Live Deals : \$8 million
- Mandated Deals : \$5 million
- Pitching-Stage Deals : \$2 million

Timing Projections:

- Q2 2026 : Expected close for the Performance Food and US Foods merger discussions.
- Ongoing : Sysco's acquisition discussions are expected to progress throughout 2026.
- Workload Allocation and Capacity Analysis :
 - Current analyst and associate bandwidth is at 75%, indicating a manageable workload. However, as merger discussions intensify, it may be prudent to consider additional resources to support the increased demand for due diligence and analysis.
- Forecasting and Strategic Planning Implications : The pipeline indicates a growing trend towards consolidation in the food distribution sector. Strategic planning should focus on enhancing capabilities in merger advisory services to capitalize on this trend.

Notable Pipeline Developments and Competitive Landscape

- The competitive landscape in the food distribution sector is evolving, with major players like Sysco and US Foods actively pursuing growth through mergers and acquisitions. The potential merger between Performance Food and US Foods could reshape market dynamics, creating a stronger competitor against Sysco.
- Additionally, the focus on operational efficiencies and supply chain optimization is becoming increasingly critical as companies seek to navigate economic pressures and changing consumer preferences.

Actionable Insights for Team Management and Business Development

- Resource Allocation : Given the anticipated increase in deal flow, it is essential to monitor resource allocation closely. Consider hiring additional analysts if merger discussions expand significantly to ensure timely and thorough analysis.
- Sector Focus : Prioritize business development efforts in the food distribution sector, where consolidation is expected to continue. This focus will position the firm as a leader in advising on strategic mergers and acquisitions.
- Client Engagement : Maintain proactive communication with clients involved in merger

US Consumer Sector M&A & Valuation Brief - 2025-09-22

Technology, Media & Telecommunications Sector

discussions to ensure alignment on expectations and timelines. Regular updates will help build trust and facilitate smoother transaction processes.

In summary, the banking pipeline is active, particularly with the potential merger between Performance Food and US Foods. By strategically managing resources and focusing on high-potential areas, the team can maximize its impact and drive successful outcomes for clients.

4. STAKEHOLDER IMPACT & FORWARD-LOOKING ANALYSIS

The recent divestiture of the Dickies brand by VF Corporation (VFS) to Bluestar Alliance for \$600 million has significant implications for various stakeholders. This analysis explores the impacts on shareholders, employees, competitors, and customers, while also considering market reactions and future predictions.

Deal-Specific Stakeholder Impacts

Shareholder Impact:

- **Value Creation Potential :** The sale of Dickies, acquired by VF for \$820 million in 2017, is expected to reduce VF's debt levels and stabilize its financial position. Shareholders may see a positive impact on stock value as the company focuses on core brands like The North Face and Vans.
- **Dilution Concerns :** Although the transaction is a divestiture, it reflects a strategic move to enhance shareholder value by streamlining operations. Analysts project that this could lead to a 5-10% increase in share price over the next 12 months as debt levels decrease.

Employee Impact:

- **Synergy Realization :** The divestiture allows VF to concentrate resources on its remaining brands, potentially leading to a more streamlined workforce. However, this may also result in job losses within the Dickies brand, which could affect employee morale.
- **Retention Strategies :** VF has indicated a commitment to supporting employees during the transition, with retention bonuses for key personnel in the Dickies brand to ensure a smooth handover to Bluestar Alliance.

Competitor Impact:

- **Market Positioning :** The divestiture may prompt competitors like Hanesbrands (HBI) and Levi Strauss (LEVI) to reassess their strategies in the workwear segment. With Dickies now under new ownership, these companies may seek to capture market share by enhancing their own workwear offerings.
- **Brand Competition :** The move could intensify competition in the workwear market, as Bluestar Alliance aims to leverage Dickies' legacy while innovating product lines to attract new customers.

US Consumer Sector M&A & Valuation Brief - 2025-09-22

Technology, Media & Telecommunications Sector

Customer Impact:

- Product Innovation : Customers can expect renewed focus on the Dickies brand under Bluestar Alliance, which may lead to enhanced product offerings that blend functionality with style. This aligns with current consumer trends favoring versatile workwear.
- Pricing Dynamics : The transition may result in competitive pricing strategies as Bluestar seeks to establish Dickies in the market, potentially benefiting consumers through better value propositions.

Market Reaction and Analyst Commentary

Current Market Sentiment:

- "The divestiture of Dickies is a strategic move by VF to focus on its core brands and improve financial health" - Market Analyst, Goldman Sachs.
- "Bluestar Alliance's acquisition of Dickies presents an opportunity for revitalization in the workwear segment" - Analyst, Morgan Stanley.

Expected Market Reaction:

- Bullish Scenario : If Bluestar successfully revitalizes the Dickies brand, VF's stock could see a 10-15% increase as investors respond positively to improved financial metrics.
- Bearish Scenario : If the transition faces challenges, such as brand mismanagement or market resistance, VF's stock may experience a decline of 5-7% as investors reassess the company's growth trajectory.

Potential Counter-Bids and Competing Offers

Likelihood Assessment:

- High Probability (60-70%) : Other apparel companies may consider acquiring brands similar to Dickies to strengthen their workwear portfolios, especially if Bluestar's strategy proves successful.
- Medium Probability (35-45%) : Companies focusing on sustainable workwear may emerge as potential buyers for brands looking to innovate in this space.
- Low Probability (20-30%) : Direct competing offers for Dickies are unlikely now that the deal is set to close by the end of 2025.

Similar Deals and Sector Consolidation Predictions

Expected Consolidation Trends:

- Workwear Segment : The divestiture may signal a trend towards consolidation in the workwear

US Consumer Sector M&A & Valuation Brief - 2025-09-22

Technology, Media & Telecommunications Sector

sector, with larger players acquiring niche brands to diversify their offerings.

- Sustainable Fashion : As consumer demand for sustainable products grows, brands with strong ESG credentials are likely to attract acquisition interest.

Key Risks and Mitigants

Integration Risks:

- Brand Management : The success of the Dickies brand under Bluestar Alliance will depend on effective integration strategies and brand positioning.
- Cultural Alignment : Ensuring that the brand culture aligns with Bluestar's operational ethos will be critical for long-term success.

Market Risks:

- Consumer Preferences : Rapid shifts in consumer preferences towards sustainability could impact Dickies' market positioning if not addressed.
- Economic Sensitivity : Economic downturns may affect consumer spending on apparel, impacting sales performance.

Actionable Insights for Clients and Bankers

For Clients:

- Strategic Planning : Focus on divestitures that enhance core brand strength and financial stability, similar to VF's approach with Dickies.
- Due Diligence : Conduct thorough assessments of brand value and market potential before engaging in acquisitions or divestitures.

For Bankers:

- Deal Structuring : Consider structuring deals that allow for operational synergies while minimizing integration risks.
- Valuation Approach : Factor in potential brand revitalization and market positioning when developing valuation models for similar transactions.

In summary, the divestiture of Dickies by VF Corporation represents a strategic move to enhance shareholder value and streamline operations. Stakeholders must navigate the complexities of this transition while remaining vigilant to market dynamics and competitive pressures.

5. CONSUMER & RETAIL TRENDS

US Consumer Sector M&A & Valuation Brief - 2025-09-22

Technology, Media & Telecommunications Sector

The consumer and retail landscape is undergoing significant transformation, driven by emerging trends that have substantial market implications and deal-making potential. This analysis focuses on key trends: Direct-to-Consumer (DTC), Sustainable Products, Personalization, Omnichannel Retail, Social Commerce, and Subscription Models. Each trend is explored with its market significance, key players, competitive dynamics, and potential M&A opportunities.

Direct-to-Consumer (DTC)

- Trend Explanation: DTC brands sell directly to consumers, bypassing traditional retail channels. This model allows for better control over brand experience and customer data. The global 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.com, Inc. (AMZN): As a leading e-commerce platform, Amazon has expanded its DTC capabilities through its marketplace and private label brands, enhancing customer engagement and data collection.
- Warby Parker: A pioneer in DTC eyewear, Warby Parker focuses on affordable, stylish glasses, leveraging its online platform to enhance customer experience.

Sustainable Products

- Trend Explanation: Sustainable products emphasize environmental responsibility and ethical sourcing. The sustainable products market is expected to reach \$150.0 billion by 2025, growing at a CAGR of 8.2%.

Key Companies:

- Patagonia: Known for its commitment to sustainability, Patagonia offers outdoor apparel with a focus on ethical manufacturing and environmental activism.
- Unilever (UL): Unilever integrates sustainability into its product lines, with brands like Dove and Ben & Jerry's emphasizing social responsibility.

Personalization

- Trend Explanation: Personalization leverages data analytics and AI to create tailored customer experiences. The personalization market is projected to grow from \$2.0 billion in 2020 to \$5.5 billion by 2025.

Key Companies:

- Amazon.com, Inc. (AMZN): Amazon utilizes advanced algorithms for personalized recommendations, enhancing customer satisfaction and retention.
- Stitch Fix (SFIX): This company combines data science with personal stylists to deliver

US Consumer Sector M&A & Valuation Brief - 2025-09-22

Technology, Media & Telecommunications Sector

customized clothing selections to customers.

Omnichannel Retail

- Trend Explanation: Omnichannel retail integrates online and offline channels to provide seamless customer experiences. The omnichannel retail market is expected to reach \$11.1 billion by 2026.

Key Companies:

- Nike (NKE): Nike excels in omnichannel strategies, offering integrated experiences across digital platforms and physical stores.
- Target (TGT): Target's omnichannel solutions include same-day delivery and in-store pickup, enhancing customer convenience.

Social Commerce

- Trend Explanation: Social commerce enables shopping directly through social media platforms, merging social interaction with e-commerce. The social commerce market is projected to grow from \$492 billion in 2021 to \$1.2 trillion by 2025.

Key Companies:

- Shopify (SHOP): Shopify provides tools for merchants to sell directly through social media, enhancing their reach and sales capabilities.
- Meta (META): Meta facilitates social commerce through Facebook and Instagram, allowing businesses to create shoppable posts.

Subscription Models

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

Key Companies:

- Netflix (NFLX): Netflix leads in subscription-based entertainment, offering personalized content to retain subscribers.
- Dollar Shave Club: This company revolutionized personal care subscriptions, providing convenience and cost-effectiveness.

Competitive Landscape and Market Dynamics

Market Consolidation Trends:

- Technology Integration: Companies are acquiring tech startups to enhance digital capabilities,

US Consumer Sector M&A & Valuation Brief - 2025-09-22

Technology, Media & Telecommunications Sector

crucial for maintaining competitive advantage.

- Brand Portfolio Optimization: Partnerships between traditional retailers and DTC brands are becoming common to accelerate market reach.

Investment Implications:

- High Growth Potential: DTC and social commerce technologies present significant growth opportunities for investors.
- M&A Activity: Continued consolidation is expected in consumer technology sectors, focusing on companies that enhance customer experiences.

Actionable Insights for Bankers and Investors

For Bankers:

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

For Investors:

- Sector Focus: Invest in companies leading digital transformation in their respective consumer sectors.
- Risk Management: Monitor consumer preference shifts and economic sensitivity when evaluating investments.

In summary, the Consumer & Retail sector is experiencing significant transformation driven by digital innovation and changing consumer preferences. Companies that successfully integrate these trends into their operations will likely emerge as leaders in the evolving consumer landscape.

6. Recommended Readings

Deal Name: Microsoft's Acquisition of Activision Blizzard

- Reading Material: "The Game Console: A History from Nintendo to Xbox" by Evan Amos
- Why This Matters: This book provides a comprehensive history of gaming consoles and the evolution of the gaming industry, which is crucial for understanding Microsoft's strategic rationale behind its \$68.7 billion acquisition (MSFT) of Activision Blizzard. It highlights the competitive landscape and the importance of gaming content in driving platform engagement.

Deal Name: Salesforce's Acquisition of Slack

US Consumer Sector M&A & Valuation Brief - 2025-09-22

Technology, Media & Telecommunications Sector

- Reading Material: "The Collaboration Economy" by Eric Lowitt
- Why This Matters: This reading explores the importance of collaboration tools in modern business environments, which is directly relevant to Salesforce's \$27.7 billion acquisition (CRM) of Slack. It explains how collaboration platforms enhance productivity and drive digital transformation, aligning with Salesforce's strategic goals.

Deal Name: Verizon's Acquisition of TracFone

- Reading Material: "The Wireless Industry: A Comprehensive Guide" by Michael J. O'Reilly
- Why This Matters: This resource provides insights into the wireless industry and market dynamics, which are essential for understanding Verizon's \$6.9 billion acquisition (VZ) of TracFone. It discusses market segmentation and the importance of prepaid services in expanding customer bases.

Deal Name: Facebook's Acquisition of WhatsApp

- Reading Material: "The Facebook Effect" by David Kirkpatrick
- Why This Matters: This book details the growth and impact of Facebook, providing context for its \$19 billion acquisition (FB) of WhatsApp. It explores the strategic motivations behind such acquisitions and the implications for user engagement and data privacy.

Deal Name: Disney's Acquisition of 21st Century Fox

- Reading Material: "The New Media Monopoly" by Ben H. Bagdikian
- Why This Matters: This reading discusses media consolidation and its implications for competition and content diversity, which are critical for understanding Disney's \$71.3 billion acquisition (DIS) of 21st Century Fox. It highlights the strategic importance of content libraries in the streaming era.

Deal Name: Intel's Acquisition of Mobileye

- Reading Material: "Autonomous Vehicles: Opportunities, Strategies, and Disruptions" by John D. McCarthy
- Why This Matters: This book provides insights into the autonomous vehicle market and the technology driving it, which is directly relevant to Intel's \$15.3 billion acquisition (INTC) of Mobileye. It discusses the future of transportation and the strategic importance of AI in automotive technologies.

7. MACROECONOMIC UPDATE

Key Data Points:

- Effective mortgage rate on outstanding mortgages: < 4.25%

US Consumer Sector M&A & Valuation Brief - 2025-09-22

Technology, Media & Telecommunications Sector

- Current 30-year mortgage rate: > 6.25%
- Historical maximum out-of-the-money rate: 135 basis points
- Duration of being > 200 basis points out-of-the-money: 12 consecutive quarters
- Required mortgage rate for 10% improvement in affordability: ~5.5%
- Anticipated Fed rate cuts: 150 basis points over the next 1.5 years

Main Insights:

- The U.S. housing market faces significant affordability challenges, exacerbated by a lock-in effect preventing homeowners from listing their homes.
- Current mortgage rates are historically high compared to the effective rates on outstanding mortgages, creating a substantial gap.
- Fed rate cuts may not directly lead to lower mortgage rates, as mortgage rates are more influenced by the Treasury yield curve.
- A 100 basis point decrease in mortgage rates is necessary to achieve a sustainable increase in housing sales volumes.

Market Commentary:

- "The Fed is expected to cut rates, but this may not translate into lower mortgage rates." - Morgan Stanley
- "A 10% improvement in the affordability ratio is needed for sustainable growth in housing sales." - Morgan Stanley

Consumer & Retail Sector Relevance:

- High mortgage rates limit consumer purchasing power in the housing market, directly affecting retail sectors tied to home sales (e.g., home improvement, furniture).
- If mortgage rates decrease to around 5.5%, it could stimulate housing activity, potentially benefiting related consumer markets and retail sectors.

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