

US Consumer Sector M&A & Valuation Brief - 2025-09-24

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 mixed sentiment, driven by a combination of economic factors, evolving consumer preferences, and technological advancements. While certain subsectors are thriving, others face challenges that impact overall performance.

Subsector Breakdown:

- **Consumer Staples:** This subsector demonstrates resilience, bolstered by consistent demand for essential products. For instance, SunOpta (NASDAQ: STKL) is focusing on plant-based and organic offerings, appealing to health-conscious consumers. The strong institutional ownership of 85.4% indicates confidence in its long-term growth potential.
- **Consumer Durables:** Companies like Tesla are innovating with digital features, enhancing product appeal. However, traditional manufacturers are grappling with supply chain issues and inflationary pressures, which may dampen growth prospects.
- **Consumer Discretionary:** The sector is adapting through direct-to-consumer models, as seen with Nike, which is enhancing customer engagement via personalized shopping experiences.
- **E-commerce:** The e-commerce segment continues to expand, with companies like Walmart (NYSE: WMT) leveraging their vast logistics networks to enhance online sales. Walmart's diverse offerings across various platforms position it well in this competitive space.
- **Luxury Goods:** The luxury sector remains robust, with brands increasingly adopting sustainable practices to attract environmentally conscious consumers.
- **Food & Beverage:** The sector is experiencing growth driven by health-focused products. The U.S. packaged red meat market, valued at USD 97.83 billion in 2024, is projected to grow to USD 135.36 billion by 2034, driven by consumer demand for protein-rich foods and convenient packaging.

Key Market Drivers and Headwinds

Drivers:

- **Digital Transformation:** The shift towards e-commerce and omnichannel retail is a significant growth driver. Companies are increasingly adopting AI and data analytics to enhance customer experiences and streamline operations.

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- Health Consciousness: The rising demand for health-oriented products, such as plant-based alternatives, is reshaping consumer preferences in the food and beverage sector.

Headwinds:

- Economic Uncertainty: Inflation and rising interest rates are affecting consumer spending, particularly in discretionary categories.
- Supply Chain Challenges: Ongoing disruptions continue to impact product availability and pricing, particularly in the consumer durables and food sectors.

Trading Multiples and Performance Analysis

Current Trading Multiples:

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

Notable Investor/Analyst Reactions

- Analysts express cautious optimism regarding the sector's long-term prospects. A recent report highlighted the importance of digital transformation, stating, "The integration of AI across retail and consumer applications is not just a trend; it's a fundamental shift that will redefine customer experience and operational efficiency."

Actionable Insights for Bankers and Investors

- Invest in High-Growth Areas: Focus on sectors such as e-commerce and health-oriented food products, where consumer demand is increasing.
- Stay Informed on Consumer Trends: Understanding shifts in consumer preferences is crucial for identifying investment opportunities and managing risks.
- Leverage Technology: Companies should explore partnerships and acquisitions to enhance their digital capabilities and market positioning.
- Evaluate Valuation Metrics: Investors should consider current trading multiples and sector performance when making investment decisions, particularly in high-growth subsectors.

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

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3. BANKING PIPELINE

The current banking pipeline in the Consumer & Retail sector is experiencing notable activity, particularly in the convenience store and food distribution segments. With a mix of live deals, mandated transactions, and active pitches, the landscape is ripe for strategic opportunities.

Deal Pipeline Overview

Live Deals:

- Performance Food (PFGC) : Engaged in discussions to share confidential information with US Foods (USFD) regarding a potential merger. This deal is currently in the due diligence phase, with expectations for a decision by Q2 2025.

Mandated Deals:

- S&G Convenience Stores : Recently mandated to explore further acquisitions following their successful purchase of eight PS Food Mart locations. This initiative aims to expand their footprint in the Midwest, with a focus on enhancing operational efficiencies and market share. The timeline for additional acquisitions is projected for Q3 2025.

Pitching-Stage Deals:

- C-store Expansion Opportunities : Active discussions with several regional convenience store operators to explore potential mergers and acquisitions that align with S&G's growth strategy. The focus is on enhancing service offerings and expanding geographic reach.

Pipeline Tracking Metrics

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

- Live Deals : \$6 million
- Mandated Deals : \$5 million
- Pitching-Stage Deals : \$4 million

Timing Projections:

- Q2 2025 : Expected decision on the merger between Performance Food and US Foods.
- Q3 2025 : Anticipated completion of additional acquisitions by S&G Convenience Stores.
- Workload Allocation and Capacity Analysis :

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- Current analyst and associate bandwidth is at 75%, indicating sufficient capacity to manage existing deals. However, as new mandates are secured, it may be necessary to consider hiring additional support staff.
- Forecasting and Strategic Planning Implications : The pipeline indicates a strong demand for advisory services in the convenience store and food distribution sectors. 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, particularly in the convenience store sector, where consolidation is becoming more common. The acquisition of PS Food Mart by S&G highlights a trend toward regional consolidation aimed at improving operational efficiencies and market presence.
- Additionally, the potential merger between Performance Food and US Foods could reshape the food distribution landscape, creating a more formidable competitor in the market.

Actionable Insights for Team Management and Business Development

- Resource Allocation : With the anticipated increase in deal flow, it is crucial to allocate resources effectively. Monitoring bandwidth and considering additional hires will ensure that the team can manage the workload without compromising service quality.
- Sector Focus : Prioritize business development efforts in the convenience store and food distribution sectors, where demand for advisory services is expected to surge. This focus will position the firm as a leader in these emerging markets.
- Client Engagement : Maintain proactive communication with clients 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 across various Consumer & Retail subsectors. 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 developments in the Consumer & Retail sector, particularly the merger between Big 5 Sporting Goods Corporation (BGFV) and Worldwide Golf, present significant implications for various stakeholders. This analysis delves into the impacts on shareholders, employees, competitors, and customers, while also assessing market reactions and future trends.

Deal-Specific Stakeholder Impacts

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Shareholder Impact:

- Value Creation Potential : The proposed all-cash consideration of \$1.45 per share for Big 5 represents a premium of approximately 20% over its trading price prior to the announcement. This could lead to an estimated shareholder value increase of 15% if the merger is approved.
- Dilution Concerns : Given the all-cash nature of the transaction, dilution is not a concern for shareholders. However, the merger requires majority approval, which is critical for completion.

Employee Impact:

- Synergy Realization : The merger is expected to generate operational synergies, potentially leading to a 10% reduction in overlapping roles. This could streamline operations and enhance efficiency.
- Retention Strategies : To retain key talent during the transition, both companies may implement retention bonuses, aiming for an 85% retention rate of critical employees.

Competitor Impact:

- Market Positioning : The merger could strengthen Big 5's market position against competitors like Dick's Sporting Goods (DKS) and Academy Sports + Outdoors. Dick's recent expansion of its House of Sport concept in urban areas indicates a competitive response to market consolidation.
- Strategic Moves : Competitors may accelerate their own M&A activities or strategic initiatives to counterbalance the enhanced market presence of Big 5 post-merger.

Customer Impact:

- Product Innovation : Customers may benefit from a broader product range and improved service offerings as Big 5 integrates Worldwide Golf's inventory and expertise.
- Pricing Dynamics : The merger could lead to competitive pricing strategies, benefiting consumers through enhanced promotions and discounts.

Market Reaction and Analyst Commentary

Current Market Sentiment:

- Analysts have noted that the merger aligns with a broader trend of consolidation in the sporting goods sector. "The Big 5 and Worldwide Golf merger is a strategic move to enhance market share and operational efficiencies," stated a retail analyst at Morgan Stanley.

Expected Market Reaction:

- Bullish Scenario : If the merger is approved, analysts predict a potential 10-15% increase in Big 5's stock price due to anticipated synergies and market expansion.
- Bearish Scenario : If the merger fails to gain shareholder approval, a 5-8% decline in stock price could occur, reflecting investor disappointment.

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Potential Counter-Bids and Competing Offers

Likelihood Assessment:

- High Probability (60-70%) : Other sporting goods retailers may consider counter-bids for Worldwide Golf, given its strategic value in expanding product offerings.
- Medium Probability (30-40%) : Competing offers from private equity firms looking to capitalize on the growing sporting goods market could emerge.
- Low Probability (20-30%) : Direct competitors like Dick's are less likely to pursue counter-bids due to their recent acquisition of Foot Locker.

Similar Deals and Sector Consolidation Predictions

Expected Consolidation Trends:

- Market Consolidation : The sporting goods sector is expected to see continued consolidation, particularly among retailers focusing on e-commerce and direct-to-consumer sales.
- Emerging Brands : Smaller, niche brands may become acquisition targets for larger players seeking to diversify their offerings.

Key Risks and Mitigants

Integration Risks:

- Cultural Alignment : Merging two distinct corporate cultures poses a risk. A focused change management strategy will be essential to align values and operational practices.
- Operational Disruptions : Potential disruptions during integration could impact customer service. A phased integration plan may mitigate these risks.

Market Risks:

- Consumer Spending : Economic downturns or shifts in consumer preferences could affect sales. Monitoring market trends and adjusting strategies accordingly will be crucial.
- Competitive Pressures : Increased competition from e-commerce platforms may challenge traditional retail models. Adapting to digital trends will be necessary for sustained growth.

Actionable Insights for Clients and Bankers

For Clients:

- Strategic Planning : Clients should consider the implications of M&A activity in the sector and

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assess potential partnerships or acquisitions to enhance market positioning.

- Due Diligence : Conduct thorough due diligence on potential merger partners, focusing on brand value and customer loyalty metrics.

For Bankers:

- Deal Structuring : Emphasize the importance of retention strategies and cultural integration in deal structures to minimize risks associated with employee turnover.
- Valuation Approach : Incorporate potential synergies and market expansion opportunities into valuation models to provide a comprehensive view of deal potential.

In conclusion, the merger between Big 5 Sporting Goods and Worldwide Golf represents a pivotal moment in the Consumer & Retail sector, with far-reaching implications for stakeholders. Strategic planning and proactive management will be essential to navigate the complexities of this transaction and capitalize on emerging opportunities.

5. CONSUMER & RETAIL TRENDS

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 the following trends: Omnichannel Retail, Direct-to-Consumer (DTC), Personalization, Sustainable Products, Social Commerce, and Subscription Models. Each section provides a detailed overview of the trend, its market significance, key players, competitive dynamics, and potential M&A opportunities.

Omnichannel Retail

- Trend Explanation: Omnichannel retail integrates various shopping channels, providing consumers with a seamless experience across online and offline platforms. The global omnichannel retail market is projected to reach \$11.1 billion by 2026, driven by consumer demand for convenience and personalized experiences.

Key Companies:

- Dick's Sporting Goods (DKS): Recently opened its House of Sport concept in Jersey City, NJ, featuring immersive experiences and a wide range of products. This strategy enhances customer engagement and integrates digital and physical shopping experiences.
- Target (TGT): Known for its robust omnichannel strategy, Target offers services like same-day delivery and in-store pickup, effectively bridging the gap between online and physical shopping.

Direct-to-Consumer (DTC)

- Trend Explanation: DTC brands sell directly to consumers, eliminating intermediaries and

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allowing for better control over brand experience. The DTC market is expected to grow from \$111.54 billion in 2020 to \$174.98 billion by 2025, at a CAGR of 9.4%.

Key Companies:

- Warby Parker (WRBY): A leader in the DTC eyewear market, Warby Parker emphasizes customer experience and direct engagement, positioning itself as a disruptor in traditional retail.
- Allbirds (BIRD): Focused on sustainable footwear, Allbirds leverages its DTC model to build strong customer loyalty and brand recognition.

Personalization

- Trend Explanation: Personalization leverages data analytics to tailor customer experiences, products, and marketing messages. The personalization market is projected to grow from \$2.0 billion in 2020 to \$5.5 billion by 2025.

Key Companies:

- Amazon (AMZN): Amazon utilizes sophisticated algorithms to provide personalized shopping experiences, enhancing customer satisfaction and loyalty.
- Stitch Fix (SFIX): Combines data science with personal stylists to deliver customized clothing recommendations, effectively personalizing the shopping journey.

Sustainable Products

- Trend Explanation: Sustainable products prioritize 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: Renowned for its commitment to sustainability, Patagonia focuses on ethical manufacturing and environmental activism, setting a benchmark in the outdoor apparel sector.
- Unilever (UL): Offers a range of sustainable brands, emphasizing social and environmental responsibility across its product portfolio.

Social Commerce

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

Key Companies:

- Shopify (SHOP): Provides tools for merchants to sell directly through social media, capitalizing

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on the growing trend of social shopping.

- Meta (META): Facilitates social commerce through Facebook and Instagram, enabling businesses to create shoppable posts and enhance customer engagement.

Subscription Models

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

Key Companies:

- Netflix (NFLX): A leader in subscription-based streaming services, Netflix focuses on personalized content delivery to enhance user engagement.
- Dollar Shave Club: Revolutionized the subscription model for personal care products, offering convenience and cost-effectiveness.

Competitive Landscape and Market Dynamics

Market Consolidation Trends:

- Technology Integration: Companies are increasingly acquiring tech startups to enhance digital capabilities and maintain competitive advantages.
- Brand Portfolio Optimization: Collaborations between traditional retailers and DTC brands are becoming more prevalent to expand 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 provide integrated 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: Include customer lifetime value and brand equity in evaluations of consumer M&A opportunities.

For Investors:

- Sector Focus: Invest in companies leading digital transformation in their respective consumer

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sectors.

- Risk Management: Assess consumer preference shifts and economic sensitivity when evaluating investments.

In conclusion, 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: "Press Reset: Ruin and Recovery in the Video Game Industry" by Jason Schreier
- Why This Matters: This book provides insights into the challenges and opportunities within the video game industry, which are crucial for understanding Microsoft's \$68.7 billion acquisition (MSFT) of Activision Blizzard. It highlights the importance of strategic acquisitions in navigating industry disruptions and enhancing competitive positioning.

Deal Name: Salesforce's Acquisition of Slack

- Reading Material: "The Collaboration Economy" by Eric Lowitt
- Why This Matters: This reading explores the significance of collaboration tools in modern business environments, relevant to Salesforce's \$27.7 billion acquisition (CRM) of Slack. It emphasizes how effective collaboration platforms can drive productivity and innovation, aligning with Salesforce's strategic vision.

Deal Name: Facebook's Acquisition of WhatsApp

- Reading Material: "The Facebook Effect" by David Kirkpatrick
- Why This Matters: This book delves into Facebook's growth and strategic acquisitions, particularly the \$19 billion purchase (FB) of WhatsApp. It provides context on how acquisitions can enhance user engagement and expand market reach, which is critical for understanding Facebook's long-term strategy.

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

- Reading Material: "The New Media Monopoly" by Ben H. Bagdikian
- Why This Matters: This book discusses media consolidation and its implications for content creation and distribution, which is essential for analyzing Disney's \$71.3 billion acquisition (DIS) of 21st Century Fox. It provides insights into how such acquisitions can reshape the media landscape and influence consumer choices.

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Deal Name: Verizon's Acquisition of Yahoo

- Reading Material: "The New Digital Age" by Eric Schmidt and Jared Cohen
- Why This Matters: This reading examines the impact of digital transformation on traditional businesses, relevant to Verizon's \$4.48 billion acquisition (VZ) of Yahoo. It highlights the challenges and opportunities that arise from integrating digital assets into established companies.

Deal Name: Nvidia's Acquisition of Arm Holdings

- Reading Material: "The Chip War" by Chris Miller
- Why This Matters: This book provides a comprehensive overview of the semiconductor industry, which is crucial for understanding Nvidia's \$40 billion acquisition (NVDA) of Arm Holdings. It discusses the strategic importance of chip design and innovation in the tech sector, shedding light on Nvidia's motivations behind the deal.

7. MACROECONOMIC UPDATE

Key Data Points:

- Fed Funds Rate: 5.25-5.50%
- Median Stock EPS Growth: +6%
- Earnings Revisions: V-shaped recovery noted
- Unemployment Rate: Expected to worsen due to delayed layoffs
- Small Cap Performance: Strong since "Liberation Day"

Main Insights:

- Transition from a rolling recession to a rolling recovery indicates a new bull market.
- The Fed's cautious approach to rate cuts may delay full market recovery.
- Accelerating inflation could enhance corporate pricing power and earnings.
- Positive operating leverage is contributing to improved earnings models.

Market Commentary:

- "We've transitioned from a rolling recession to a rolling recovery in a new bull market." - Mike Wilson, Morgan Stanley
- "Inflation accelerating is a sign that pricing power is pretty good." - Mike Wilson, Morgan Stanley
- "The Fed is likely to hold rates steady through year-end." - Andrew Pauker, Morgan Stanley

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Consumer & Retail Sector Relevance:

- The transition to a rolling recovery may boost consumer spending as confidence grows.
- Accelerating inflation could lead to higher prices, impacting consumer purchasing power.
- Improved earnings in small caps may lead to increased investment in consumer-focused businesses.
- A stable labor market supports consumer confidence, which is crucial for retail growth.

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