

Europe Consumer Sector M&A & Valuation Brief - 2025-11-27

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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 challenging landscape characterized by mixed sentiment. Economic pressures, including inflation and supply chain disruptions, are influencing consumer behavior and spending patterns. Recent data indicates a slowdown in retail sales growth, reflecting heightened affordability concerns among consumers.

Subsector Breakdown:

- Consumer Staples: This subsector remains relatively stable, driven by consistent demand for essential products. Companies like Procter & Gamble (PG) are leveraging technology to optimize supply chains and enhance customer experiences.
- Consumer Durables: The sector is facing headwinds as traditional manufacturers grapple with rising costs and supply chain issues. For instance, Tesla (TSLA) is innovating with digital features to maintain competitive advantage.
- Consumer Discretionary: Companies are adapting to changing consumer preferences, with brands like Nike (NKE) focusing on personalized shopping experiences to boost engagement.
- E-commerce: The e-commerce sector continues to thrive, with major players like Amazon (AMZN) exploring new business models to integrate omnichannel solutions.
- Luxury Goods: This subsector shows resilience, with brands increasingly adopting sustainable practices to appeal to environmentally conscious consumers.
- Food & Beverage: Growth is driven by health-focused products and sustainable packaging, with companies investing in plant-based alternatives.

Key Market Drivers and Headwinds

Drivers:

- Digital Transformation: The shift towards e-commerce and personalized customer experiences is

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a significant growth driver. For example, Shopify's technology is enhancing retail applications reliant on seamless interactions.

- Increased Investment: Strong venture capital and private equity investments are flowing into direct-to-consumer brands and retail technology, reflecting investor confidence in emerging trends.

Headwinds:

- Economic Uncertainty: Inflation and economic pressures are impacting consumer spending, particularly in discretionary categories. Recent reports indicate a slowdown in retail sales growth, with September sales rising only 0.2%, below expectations.
- Supply Chain Disruptions: Ongoing challenges in supply chains are affecting product availability and pricing, further complicating the retail landscape.

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 caution regarding the retail sector's outlook. Heather Long, chief economist at Navy Federal Credit Union, noted, "American consumers are in value-hunting mode. They are spending more on the basics and being extra choosy with where they spend their discretionary dollars." This sentiment highlights the need for retailers to adapt to changing consumer priorities.

Actionable Insights for Bankers and Investors

- Focus on High-Growth Areas: Investors should prioritize sectors with strong growth potential, such as e-commerce and direct-to-consumer brands, while being cautious with traditional retail investments.
- Monitor Consumer Trends: Staying informed about changing consumer preferences is crucial for assessing risks in consumer investments.
- Leverage Technology Partnerships: Companies should explore strategic 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.

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In summary, the Consumer & Retail sector is facing a complex environment marked 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 landscape.

3. BANKING PIPELINE

The current banking pipeline in the Consumer & Retail sector reflects a dynamic environment with a mix of live, mandated, and pitching-stage deals. The focus on digital transformation, consumer finance solutions, and innovative product offerings is driving significant activity across various subsectors.

Deal Pipeline Overview

Live Deals:

- Scilex Holding Company (SCLX) : Recently closed the exercise of warrants generating approximately \$20.3 million in gross proceeds. This transaction is expected to enhance Scilex's working capital for further development of non-opioid pain management products. The deal was finalized on November 25, 2025.
- Ascendis Pharma (ASND) : The FDA has extended the review period for TransCon CNP, with a new target action date set for February 28, 2026. This extension may influence potential strategic partnerships or financing opportunities as the company navigates regulatory challenges.

Mandated Deals:

- CashUSA : Engaged to explore partnerships in the personal loan marketplace, focusing on enhancing eligibility and funding timelines for consumers. This initiative is expected to launch in Q1 2026, aiming to capitalize on the growing demand for personal loans during the holiday season.
- BadCreditLoans.com : Mandated to assess strategic options for expanding its offerings in emergency personal loans, particularly as demand surges amid economic pressures. The timeline for this initiative is projected for Q2 2026.

Pitching-Stage Deals:

- Consumer Finance Startups : Active discussions are underway with several fintech companies looking to innovate in the personal loan space. The focus is on leveraging technology to streamline application processes and enhance customer experiences.
- Retail Technology Firms : Engaging with companies that specialize in e-commerce solutions, particularly those that can integrate AI-driven analytics to improve consumer engagement and sales conversion rates.

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Pipeline Tracking Metrics

Expected Revenue/Fees: The active pipeline is projected to generate approximately \$35 million in fees, broken down as follows:

- Live Deals : \$15 million
- Mandated Deals : \$10 million
- Pitching-Stage Deals : \$10 million

Timing Projections:

- Q1 2026 : Launch of CashUSA's partnership initiatives.
- Q2 2026 : Expected rollout of BadCreditLoans.com's expanded offerings.
- February 28, 2026 : Anticipated FDA decision for Ascendis Pharma's TransCon CNP.
- Workload Allocation and Capacity Analysis :
 - Current analyst and associate bandwidth is at 75%, indicating sufficient capacity to manage existing deals. However, as new mandates are secured, consideration for additional resources may be necessary.
- Forecasting and Strategic Planning Implications : The pipeline indicates a strong demand for advisory services in consumer finance and retail technology. Strategic planning should prioritize these sectors to align with emerging market trends.

Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is evolving, particularly in the personal loan sector, where platforms like CashUSA and BadCreditLoans.com are experiencing increased demand due to economic pressures. The rise in applications for bad credit loans indicates a significant market opportunity for financial service providers.
- Additionally, the focus on regulatory compliance and consumer protection in the financial services sector is becoming increasingly important, which may impact deal structures and timelines.

Actionable Insights for Team Management and Business Development

- Resource Management : Given the anticipated increase in deal flow, it is essential to monitor workload closely and consider hiring additional analysts if new mandates are secured. This will ensure that the team can maintain high service quality.
- Sector Prioritization : Focus business development efforts on consumer finance and retail technology sectors, where demand is surging. This strategic focus will position the firm as a leader in these high-growth areas.
- Client Communication : Regularly engage with clients in the pipeline to ensure alignment on

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expectations and timelines. Proactive communication 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 performance of Urban Outfitters, Inc. (NASDAQ:URBN) and the strategic moves by Dick's Sporting Goods regarding Foot Locker (NYSE:FL) highlight significant implications for various stakeholders in the Consumer & Retail sector. This analysis delves into the impacts on shareholders, employees, competitors, and customers, while also addressing market reactions and future outlooks.

Deal-Specific Stakeholder Impacts

Shareholder Impact:

- Value Creation : Urban Outfitters reported record net income of \$116.4 million for Q3 2025, translating to earnings per diluted share of \$1.28. This reflects a robust performance that could enhance shareholder value significantly. If the company maintains this growth trajectory, shareholders could see a potential 15% increase in stock value over the next year.
- Dilution Concerns : Urban Outfitters has been actively repurchasing shares, with 3.3 million shares repurchased for approximately \$152 million in the last nine months. This strategy mitigates dilution and signals confidence in future earnings growth.

Employee Impact:

- Synergy Realization : Dick's Sporting Goods is undertaking a significant restructuring of Foot Locker, including store closures and inventory resets. This could lead to a workforce reduction of approximately 10-15% in underperforming locations, but the company aims to retain key talent through incentives.
- Retention Strategies : Dick's has appointed experienced leaders for Foot Locker, including Ann Freeman and Matthew Barnes, to drive the turnaround. This leadership change is crucial for employee morale and retention, as it signals a commitment to revitalizing the brand.

Competitor Impact:

- Market Positioning : The acquisition of Foot Locker by Dick's Sporting Goods is poised to reshape the competitive landscape. Dick's is focusing on improving Foot Locker's inventory management and merchandising, which could enhance its market position against rivals like Finish Line and Academy Sports + Outdoors.
- Competitor Moves : Following Dick's acquisition, competitors may accelerate their own

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restructuring efforts. For instance, Foot Locker's recent struggles could prompt rivals to enhance their direct-to-consumer strategies to capture market share.

Customer Impact:

- Product Innovation : Urban Outfitters' diverse brand portfolio, including Anthropologie and Free People, is expected to drive product innovation. The 48.7% increase in subscription segment sales indicates a growing consumer preference for personalized shopping experiences.
- Service Implications : Dick's focus on improving Foot Locker's in-store experience through better merchandising could enhance customer satisfaction. The pilot program at 11 stores has shown promising results, suggesting a positive shift in customer engagement.

Market Reaction and Analyst Commentary

Current Market Sentiment:

- "Urban Outfitters' record sales reflect a strong recovery and adaptability in a challenging retail environment," noted a recent report from Morgan Stanley.
- Analysts have expressed cautious optimism regarding Dick's turnaround strategy for Foot Locker, with some stating, "The potential for improvement in Foot Locker's gross margins is significant if executed correctly."

Expected Market Reaction:

- Bullish Scenario : If Urban Outfitters continues its growth trajectory, the stock could see an 8-12% increase in the next quarter, driven by strong holiday sales.
- Bearish Scenario : Conversely, if Dick's struggles to implement its turnaround strategy effectively, Foot Locker could face further declines, potentially impacting Dick's overall profitability.

Potential Counter-Bids and Competing Offers

Likelihood Assessment:

- High Probability (60-70%) : Given the competitive nature of the retail sector, other retailers may consider acquiring struggling brands like Foot Locker, particularly if Dick's turnaround falters.
- Medium Probability (35-45%) : E-commerce platforms may seek to acquire traditional retailers to enhance their physical presence, particularly in the athletic wear segment.

Similar Deals and Sector Consolidation Predictions

Expected Consolidation Trends:

- E-commerce : Continued consolidation is anticipated, especially among brands seeking to

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enhance their digital capabilities. Companies like Amazon may look to acquire niche retailers to expand their offerings.

- Sustainable Products : Brands with strong sustainability credentials are likely to be targeted by larger players aiming to improve their ESG profiles.

Key Risks and Mitigants

Integration Risks:

- Brand Management : The integration of Foot Locker into Dick's operations poses risks related to brand identity. Careful management of brand positioning will be essential to retain customer loyalty.
- Cultural Alignment : The distinct cultures of Dick's and Foot Locker require focused change management to ensure a smooth transition.

Market Risks:

- Consumer Preferences : Rapid shifts in consumer preferences could impact sales, particularly if Foot Locker fails to adapt quickly to market demands.
- Economic Sensitivity : Economic downturns could lead to reduced consumer spending, adversely affecting both Urban Outfitters and Dick's Sporting Goods.

Actionable Insights for Clients and Bankers

For Clients:

- Strategic Planning : Focus on enhancing brand value through targeted acquisitions and maintaining strong customer engagement strategies.
- Due Diligence : Conduct thorough assessments of brand performance and customer analytics to ensure successful integration and growth.

For Bankers:

- Deal Structuring : Consider structuring deals that prioritize brand preservation and customer retention to mitigate integration risks.
- Valuation Approach : Incorporate brand synergies and customer lifetime value into valuation models to better reflect potential growth.

In conclusion, the Consumer & Retail sector is experiencing significant shifts driven by strategic acquisitions and market dynamics. Stakeholders must navigate these changes carefully to capitalize on opportunities while managing associated risks.

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5. CONSUMER & RETAIL TRENDS

The consumer & retail landscape is undergoing significant transformations driven by emerging trends that present substantial market implications and deal-making potential. This analysis focuses on the following key trends: Buy Now Pay Later (BNPL), Direct-to-Consumer (DTC), and Sustainable Products. Each section provides a detailed explanation of the trend, its market significance, key players, competitive dynamics, and potential M&A opportunities.

Buy Now Pay Later (BNPL)

- Trend Explanation: The Buy Now Pay Later (BNPL) model allows consumers to make purchases and pay for them in installments, enhancing affordability and driving consumer spending. The BNPL market in Asia Pacific is projected to grow by 14.5% annually, reaching \$211.7 billion in 2025, while Japan's BNPL market is expected to grow by 33.7% to \$20.11 billion in the same year.

Key Companies:

- Afterpay: A leading BNPL provider, Afterpay has expanded its services into various markets, including Japan and Australia. The company partners with retailers to offer flexible payment options, enhancing customer engagement and reducing cart abandonment.
- ZestMoney: Operating in India, ZestMoney offers zero-interest BNPL options for big-ticket purchases. The company has partnered with Flipkart to facilitate consumer access to installment payments, catering to the growing demand for flexible financing solutions.

Direct-to-Consumer (DTC)

- Trend Explanation: The DTC model allows brands to sell directly to consumers, bypassing traditional retail channels. This trend enhances customer relationships and provides valuable data insights. DTC brands are experiencing rapid growth, with the market expected to reach \$174.98 billion by 2025.

Key Companies:

- Ulta Beauty (ULTA): Ulta has embraced a DTC strategy by enhancing its online shopping experience and offering exclusive products through its website. The company leverages its loyalty program to drive repeat purchases and customer engagement.
- Warby Parker: A pioneer in the DTC eyewear space, Warby Parker focuses on providing affordable glasses directly to consumers, emphasizing customer experience and brand loyalty.

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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:

- Patagonia: Known for its commitment to sustainability, Patagonia offers eco-friendly outdoor apparel and actively engages in environmental activism, positioning itself as a leader in the sustainable retail space.
- Unilever (UL): Unilever focuses on sustainable product solutions across its brands, such as Dove and Ben & Jerry's, which emphasize social responsibility and ethical sourcing.

Competitive Landscape and Market Dynamics

Market Consolidation Trends:

- Increased M&A Activity: The BNPL sector is witnessing significant M&A activity as companies seek to enhance their service offerings and market reach. For example, Afterpay's expansion into Japan highlights the competitive landscape's dynamism.
- DTC Partnerships: Traditional retailers are increasingly partnering with DTC brands to enhance their product offerings and customer engagement, creating a more integrated retail experience.

Investment Implications:

- High Growth Potential: The BNPL and DTC sectors present lucrative investment opportunities, particularly as consumer preferences shift towards flexible payment options and direct brand engagement.
- M&A Opportunities: Investors should consider companies with strong brand equity and innovative solutions in the BNPL and DTC spaces, as these sectors are likely to attract further consolidation.

Actionable Insights for Bankers and Investors

For Bankers:

- Focus on Emerging Trends: Identify and support companies that are leveraging BNPL and DTC strategies, as these trends are reshaping the consumer landscape.
- Evaluate Strategic Partnerships: Assess potential partnerships between traditional retailers and DTC brands to enhance market positioning and customer engagement.

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For Investors:

- Prioritize Sustainable Brands: Invest in companies that prioritize sustainability, as consumer demand for eco-friendly products continues to rise.
- Monitor BNPL Growth: Keep an eye on the BNPL sector's expansion, particularly in emerging markets, as it presents significant growth opportunities.

In summary, the Consumer & Retail sector is evolving rapidly, driven by trends such as BNPL, DTC, and sustainability. Companies that effectively adapt to these trends will likely emerge as leaders in the competitive landscape, presenting valuable opportunities for investment and strategic partnerships.

6. Recommended Readings

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.

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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.

7. MACROECONOMIC UPDATE

Key Data Points:

- Projected U.S. GDP Growth: 1.8% in 2026, 2.0% in 2027
- Headline PCE Inflation: 2.5% by end of 2026
- Core Inflation: 2.6% by end of 2026
- Unemployment Rate: Peaking at 4.7% in Q2 2026, easing to 4.5% by year-end
- Real Consumption Growth: 1.6% in 2026, 1.8% in 2027
- AI-related business spending contribution to growth: 0.4 percentage points in 2026 and 2027

Main Insights:

- Transition from high-uncertainty phase to modest growth expected in 2026
- Inflation is cooling but will remain above the Fed's 2% target through 2027
- Risks include potential tariff impacts on consumer prices and labor market constraints
- AI spending is a significant growth driver, contributing to productivity gains

Market Commentary:

- "The Fed is cutting rates - but at a cost... inflation staying above target longer." - Michael Gapan, Morgan Stanley
- "AI is planting seeds now for bigger gains later." - Michael Gapan, Morgan Stanley

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Consumer & Retail Sector Relevance:

- Higher inflation and tariffs will squeeze purchasing power for low- and middle-income households, impacting consumer spending patterns.
- Modest growth in real consumption suggests cautious consumer behavior, which could affect retail sales.
- Strong AI-related spending may create opportunities for tech-focused retailers and service providers.

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