

A large graphic celebrating 20 years. The number '20' is rendered in a thick, white, 3D-style font with a dark blue outline. Below the '0', the word 'YEARS' is written in a white, sans-serif font. The background is a dark blue gradient with various digital and technical icons, including gears, hexagons, arrows, and data points, all in shades of blue and white.

20 YEARS

M&A and Capital Markets Activity in the North American Consumer and Retail Sector: 2020 Annual Update

Corporate and Investment Banking Practice

02/01/2021

EVALUESERVE

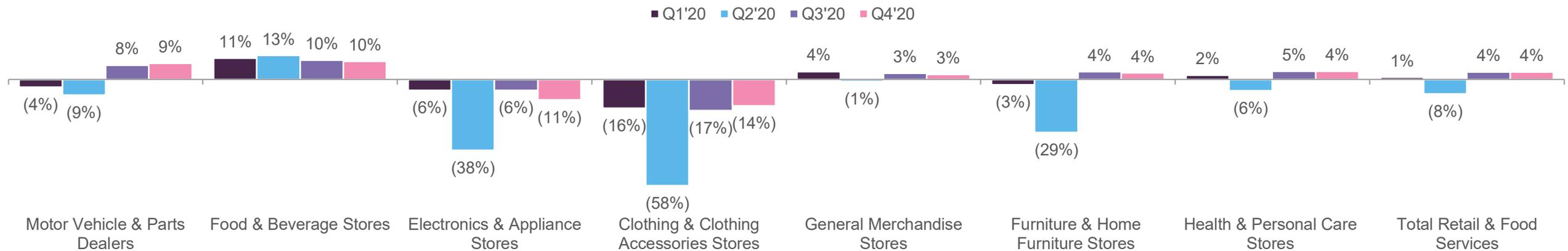
Situation Overview



- The COVID-19 pandemic severely affected the North American consumer and retail sector in 2020.
 - Although there were signs of recovery in Q3 2020, a spike in COVID-19 cases in November and the emergence of a new strain of the virus have slowed down the pace of recovery.
 - The expected deployment of a vaccine could improve the economic scenario in 2021, although full recovery to pre-COVID-19 levels is likely to take 6–9 months.
- The nature of consumer spending changed drastically in 2020, as shoppers focused on buying essential items, rather than non-essentials.
- US consumers tightened their spending in November amid rising cases and new restrictions on dining out and physical shopping.
 - However, the announcement of a second stimulus package worth \$900 billion by the US government is expected to drive consumers to ramp up spending to June–July 2020 levels.
- According to a recent report by the Bureau of Labor Statistics, the overall unemployment rate in the US declined to 6.7% in December 2020, after having peaked at 14.7% in April.
 - Retail trade added 121,000 jobs in December, with nearly half of the growth occurring in the general merchandise stores that includes warehouse clubs and supercenters.

Performance of Sub-sectors

Figure 1: US Retail Sales – Y-o-Y Change (%)



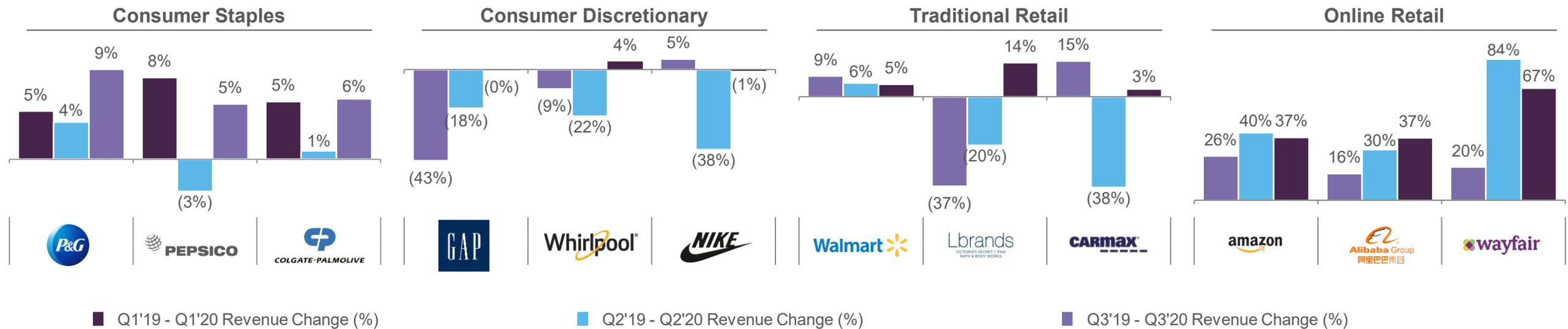
Note: Numbers have been compared on a Y-o-Y basis

- According to the US Census Bureau's seasonally adjusted data, total retail and food services sales grew marginally by 0.4% Y-o-Y to \$6,241.6 billion in 2020 from \$6,214.7 billion in 2019.
 - Sectors such as food & beverage and health & personal care were not materially impacted by COVID-19 and were mostly constant throughout the year, whereas consumer discretionary sectors such as electronics & appliance, clothing & clothing accessories, and furniture & home furniture were significantly impacted in Q2'20 but started recovering thereafter.
- According to the National Retail Federation, holiday sales in November and December rose 8.3% compared with the same period a year ago, which was higher than the estimated growth of 3.6–5.2%.
 - From Thanksgiving Day through Cyber Monday (five days), 95.7 million US shoppers engaged exclusively in online shopping, up 44% compared with 2019.

Source: U.S. Census Bureau

Financial Performance

Figure 2: Consumer and Retail Sector Revenue Trends

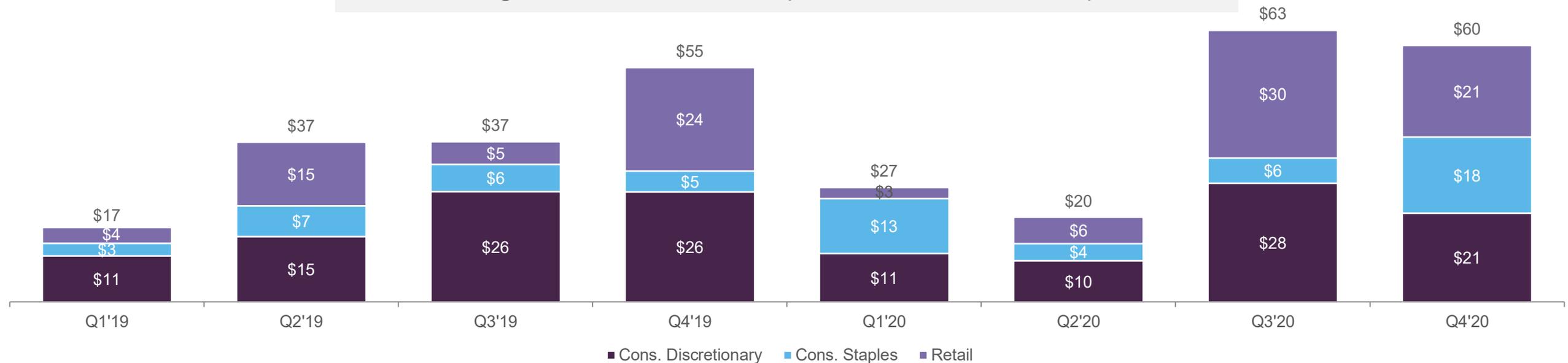


- As illustrated in Figure 2, traditional retail sales started recovering in Q3 2020, as many physical stores reopened with COVID-19 guidelines in place.
 - The highest jump in sales took place in the online retail space as the segment witnessed a revenue surge in Q3 2020, despite the reopening of physical stores and the postponement of Amazon.com Inc's Prime Day to Q4 2020.
- In Q3 2020, consumers spent nearly 20% of their total expenditure on online shopping.
- The consumer staples segment witnessed continued growth in Q3 2020.
- Sales in the consumer discretionary segment started recovering slowly, as consumers started to spend on non-essential items.

Source: Company Filings

M&A Activity

Figure 3: M&A Deal Volume (Total Deal Value in \$ billion)



- M&A activity in the consumer and retail sector in the Americas slightly declined by 6% in Q4 2020 to \$60 billion, compared with \$63 billion in Q3 2020.
 - This downside can be attributed to a drop in M&A activity in the discretionary and retail segments.
 - The spike in Q3 2020 M&A activity was driven by 7-Eleven’s \$21 billion acquisition of convenience store chain Speedway.
- Retail outlets that sell essential items attracted the highest dealmaker attention in 2020.
 - Most deals in the retail sector targeted supermarkets, or grocery or convenience stores.
- In 2020, M&A activity increased by 9%, compared with 2019.

Source: Refinitiv Deals Intelligence