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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



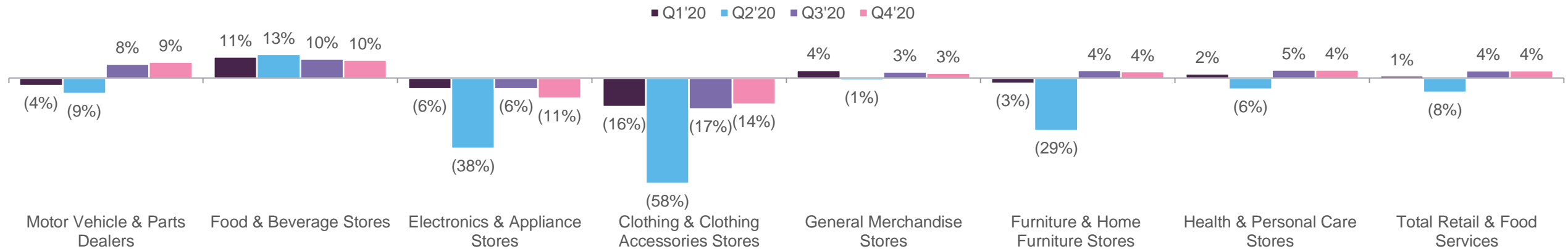
Situation Overview



- 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 (%)



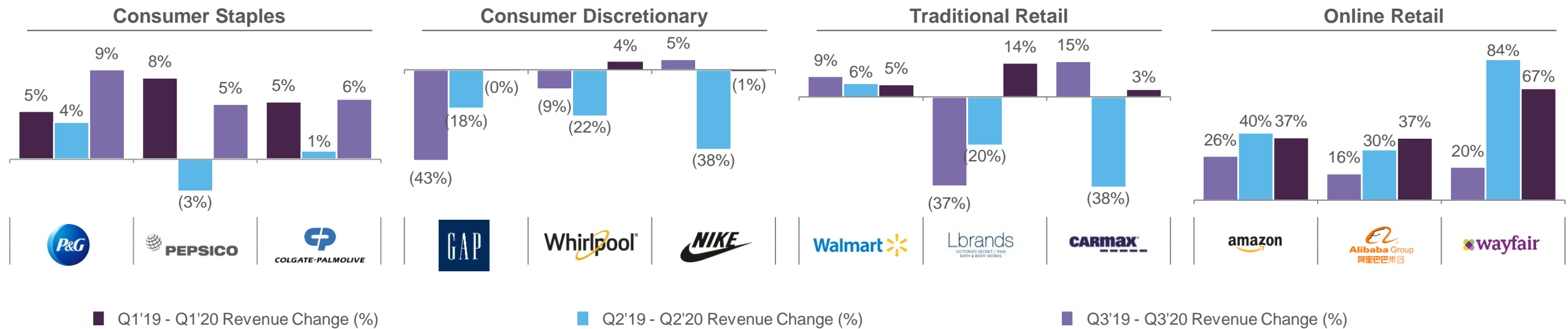
Note: Numbers have been compared on a Y-o-Y basis

- 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

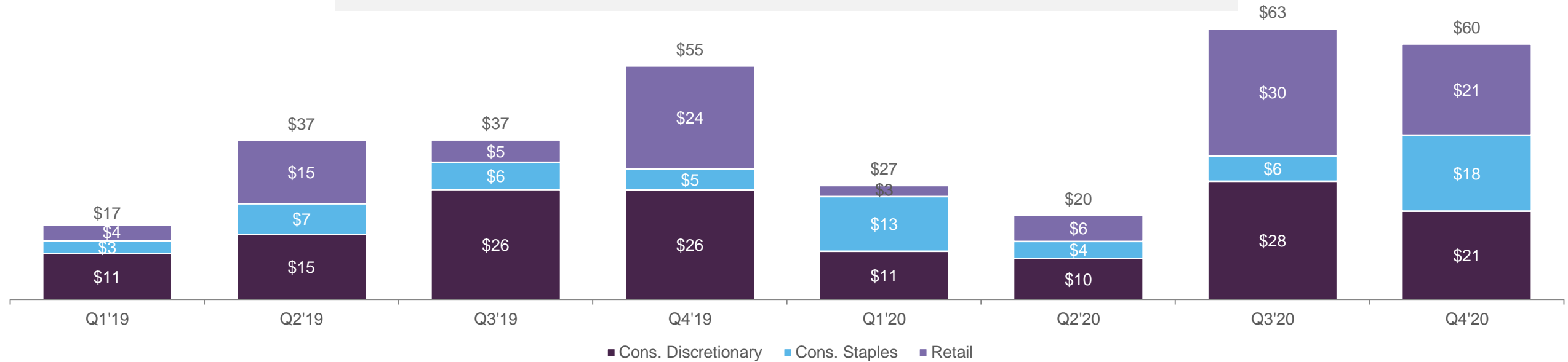


- As illustrated in Figure 2, traditional retail sales started recovering in Q3 2020, as many physical stores reopened with COVID-19 guidelines in place.
 - The highest jump in sales took place in the online retail space as the segment witnessed a revenue surge in Q3 2020, despite the reopening of physical 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

M&A Activity (Cont'd)

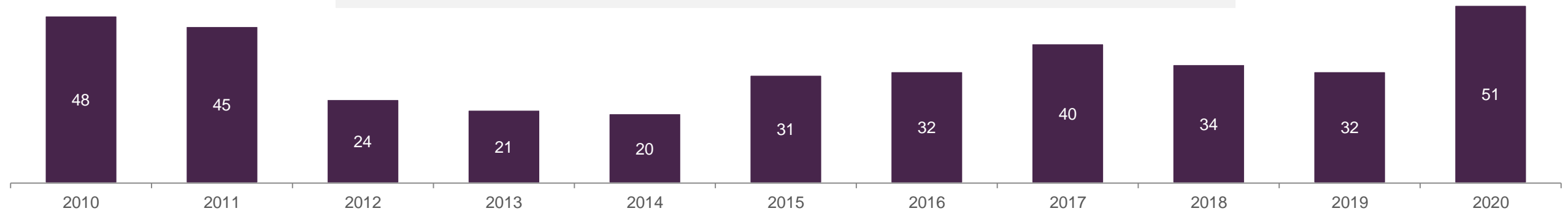
Select M&A Deals in FY 2020

 Announced Date	 Target	 Buyers / Investors	 Deal value (\$ million)	 Target Industry
Dec 22, 2020	Applegreen plc	The Blackstone Group; B&J Holdings	2,036	Automotive Retail
Dec 21, 2020	Sportsman's Warehouse Holdings	Great Outdoors Group	1,102	Specialty Stores
Dec 14, 2020	QuickChek Corp	Murphy USA	645	Food Retail
Nov 25, 2020	AA plc	Warburg Pincus; TowerBrook Capital	4,004	Specialized Consumer Service
Nov 10, 2020	Great Canadian Gaming Corporation	Apollo Global Management	3,844	Casinos and Gaming
Nov 06, 2020	Assets of NPC International, Inc.	Flynn Restaurant Group	816	Restaurants
Nov 02, 2020	Dorel Industries Inc.	Cerberus Capital Management	862	Home Furnishings
Sep 29, 2020	Safe Harbor Marinas, LLC	Sun Communities	2,110	Leisure Facilities
Sep 25, 2020	William Hill plc	Caesars Entertainment, Inc.	4,986	Casinos and Gaming
Sep 15, 2020	Kraft Heinz- Natural Cheese Business	Groupe Lactalis S.A.	3,200	Packaged Foods and Meats
Aug 02, 2020	Speedway LLC	7-Eleven, Inc.	21,000	Automotive Retail
Jun 10, 2020	Grubhub Inc.	Just Eat Takeaway.com	7,300	Online Food Retail
May 11, 2020	Coty's Professional & Retail Hair business	KKR & Co. Inc.	2,580	Personal Products

Source: Company News, Press Releases

Bankruptcies

Figure 4: Bankruptcies in the US Retail Sector (2010–20)

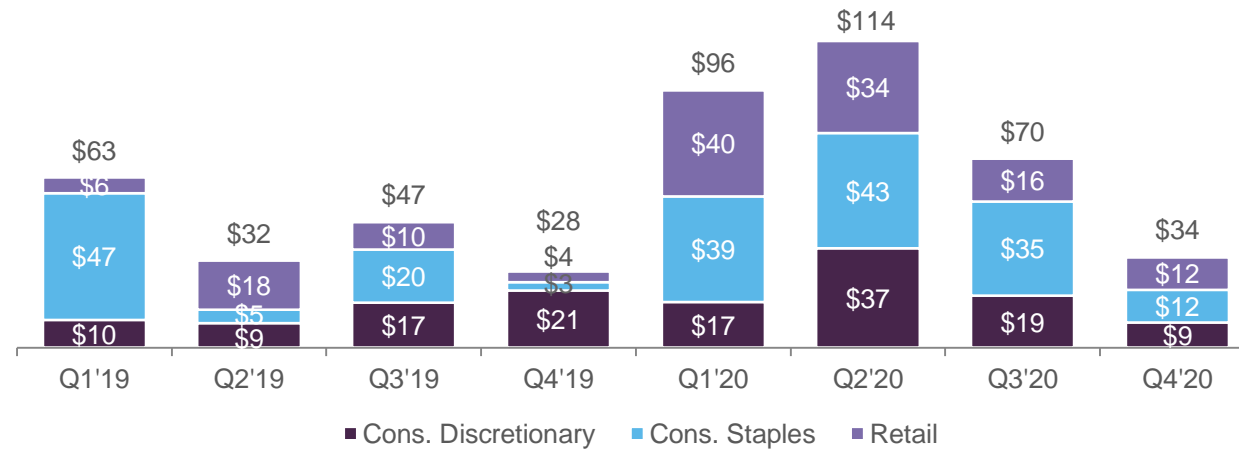


- In 2020, 51 retailers (each with assets worth more than \$1 billion) filed for bankruptcy in the US, leading to the highest number of bankruptcies filed in 11 years after the 2008 global financial crisis.
 - Retailers such as Gap and Children’s Place are planning to shrink their store fleets, while other distressed retailers are contemplating to file for bankruptcy protection.
- COVID-19 has changed the business scenario and created a need for investment in digital upgrades and online business models.
- Many companies that have been unable to keep up with these changes or cope with the pressure of store closures, safety protocols, and other effects of COVID-19 have filed for Chapter 11 bankruptcy protection.
 - On November 21, music product retailer Guitar Center, with more than \$1 billion in liabilities, filed a voluntary petition for reorganization under Chapter 11 and on December 3, boutique clothing chain Francesca's Holdings Corp filed for Chapter 11 bankruptcy.
- We believe 2021 will continue to be a tough year for traditional retailers in the US, despite the rollout of COVID-19 vaccines.
 - We foresee more retail bankruptcies before things get better.

Source: S&P Global Press Releases

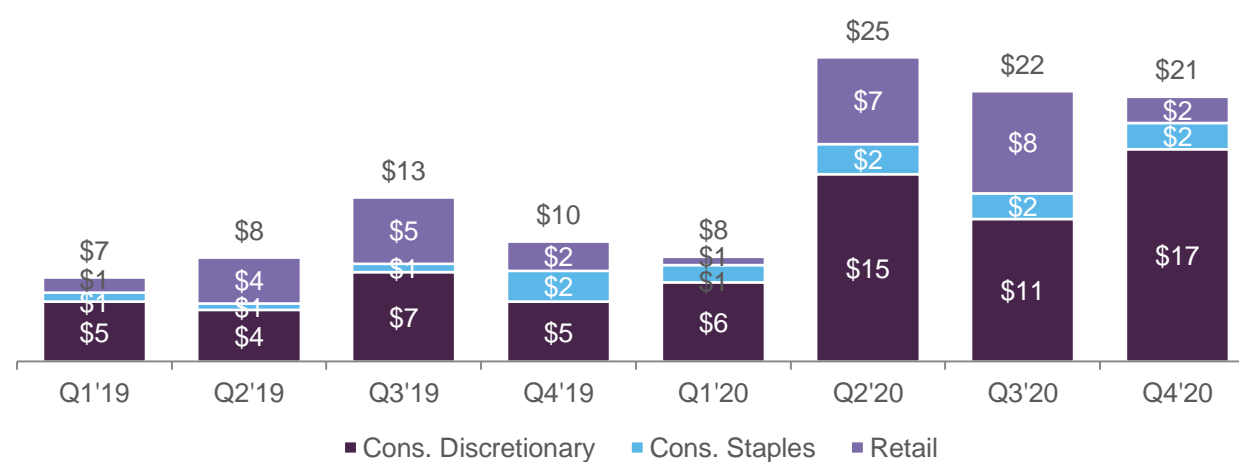
Debt and Equity Capital Markets Activities

Figure 5: DCM Quarterly Deal Volume



- The value of bond-issuance activities in the US stood at \$34 billion in Q4 2020, compared with \$70 billion in Q3 2020.
- Overall, the bond-issuance activities in the consumer and retail sector substantially increased by 83.8% Y-o-Y in 2020.
 - DCM activity from retail and consumer staples issuers witnessed a strong Y-o-Y gains during 2020.
- In June 2020, Amazon raised \$10 billion in the corporate debt market, including a \$1 billion bond yielding just 0.4%, the lowest interest rate for any bond in the US corporate history.

Figure 6: ECM Quarterly Deal Volume



- The value of equity-raising activities in the US marginally declined by 2% in Q4 2020 to \$21 billion, compared with \$22 billion in Q3 2020.
 - Both North America's largest automotive service provider Driven Brands Holdings and Florida-based home builder Dream Finders Homes filed for IPOs of \$100 million each on December 22.
- Overall, the capital-raising activities through equity offering in the consumer and retail sector surged by 99.4% Y-o-Y in 2020, driven by the increase in all the three segments.

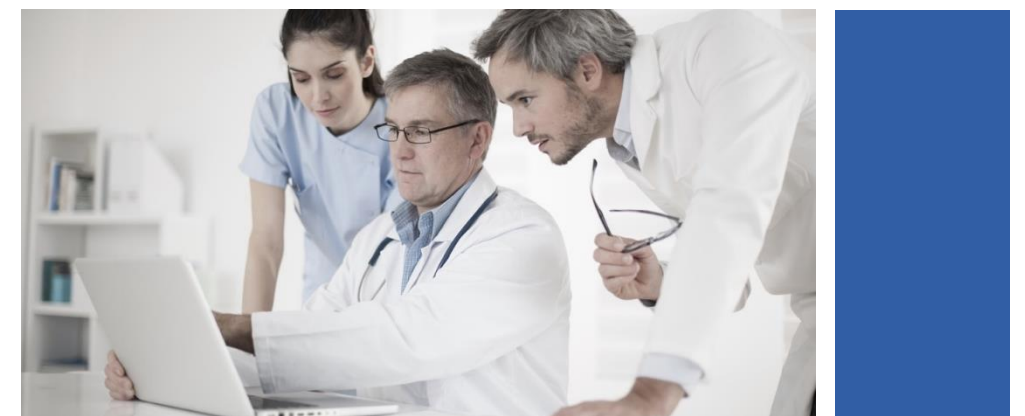
Source: Refinitiv Deals Intelligence

The Road Ahead

Outlook for 2021



- Several major global pharma companies have introduced their COVID-19 vaccines and many countries have started deploying them. Therefore, we expect the overall situation to improve in the near future.
- Consumer spending will likely increase, as public health returns to normal.
- We see consumers resuming activities such as dining out, going out for recreation, and traveling, which they had postponed due to COVID-19.
 - Consumers are also likely to increase spending on healthcare services.
- There is still a lot to learn on how this pandemic has changed consumer behavior.
 - For example, more frequent virtual working in a post-pandemic environment could potentially decrease the spending on transportation and motor vehicles, among others.
 - Any savings emanating from this could be re-directed towards other categories, such as housing and utilities.
- We believe companies will need to monitor their customers' spending behavior, which could have been drastically altered by the COVID-19 pandemic.
- We expect consumers to engage more in online shopping, which will further drive companies to expand their online and omnichannel capabilities.
 - Meanwhile, improving the in-store experience, as well as health and safety facilities within physical stores will become even more critical to the survival of consumer and retail sector players.



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