Opus Connect

Consumer M&A Outlook

FOR **2021** AND BEYOND

+ Investment Bankers
+ Private Equity Lenders
+ Executives

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INTRODUCTION

This white paper is a joint venture with Assembled Brands. Opus Connect would like to thank Randy Mitzman (VP, Origination and Business Operations) and Michael Lipkin (President and COO) with Assembled Brands for their continued participation and support in the middle market M&A community.

The light at the end of the tunnel is finally here, and middle market M&A trends are shifting sharply to reflect what life looks like post-covid as consumer behavior has changed and evolved following a global health crisis. What has emerged is a market that is focusing on supply chain issues, consumers that are more interested in sustainability and ethical supply chains, and transactions that reflect the digital realities of moving into predominantly e-commerce models. The goal of this research is to provide the Opus Connect community with information about the current consumer deal pipeline, emerging and dominant market trends, and how investment bankers, private equity firms, lenders, and executives are navigating 2021's unique challenges and opportunities.

INVESTMENT BANKERS, PRIVATE EQUITY FIRMS, & LENDERS: ETHICAL CONSUMERISM LEADS THE WAY

A primary interest to Opus Connect's extensive network of transactional professionals is what deals are getting done right now, and how the consumer space is functioning after a year-plus of a large shift in consumer behavior. Overwhelmingly, experts on all sides of buying, selling, and lending agree that any business with a foothold in the health and wellness space, such a as home fitness, food delivery and meal planning services, pet care, and technology that boosts productivity in home offices are doing extremely well at present. Consumers are invested in sustainable, environmentally friendly, and organic options – plant-based proteins, organic food and beverage, and farm-to-door options are of particular interest as deal professionals see these sectors booming for a long time to come. Personal products that can be purchased via e-commerce platforms – everything from beauty and cosmetics to eyewear are poised to continue an upward trend.

Errol Glaser of Triangle Capital provided the following insight as to what is trending and booming: "Everything green and recycling. Everybody is trying to figure out the best way of recycling, whether it's the beverage companies saying we're going to be making bottles that are using recycled elements, or companies that are packaging more in paper and less in plastic and carbon dependent elements. All of that is going to be the way of the future."

Interviews conducted for this research heavily emphasized how important digital platforms are going forward to keep the workforce connected and transitioning to more hybrid models of work that rely less on in-person, in-office presence. **Justin Schaffer (M&A Advisor and Closer of Woodbridge International**) noted that "anything where it's working from home that benefits from someone spending more time at home. You're going to see a positive bump for years to come with a lot more people transitioning to remote work."

Alongside work from home is the focus within the home on green and sustainable products. Our community predicts that green energy will get more and more competitive, with the younger generation proving to be drivers of growth in these areas. **Euan Rellie (Co-Founder and Senior Managing Director, BDA Capital)** has a great take on ethical consumerism, sharing that "to me, it's actually profoundly exciting as I am in my mid-fifties and younger people who are 25 and 30 are teaching my generation how to evolve our behavior. I think it is having an effect, and not just on Millennials or Gen Z. Therefore, I think that broad-based alternatives like plant-based protein are absolutely here to stay, and we're seeing different versions and evolutions of that in our business trends."

Opus Connect discussed ethical consumerism as fuel for this growing trend towards veganism, leading to an uptick in M&A activity involving clean and sustainable brands. Moreover, ESG factors (that is, environmental, social, and corporate governance) such as sustainable sourcing and production of goods, ethical supply chains, and brand management are influencing investment decisions across the deal landscape. Justin Schaffer asserts that it is "going to build diligence where you know buyers want to make sure that what they're buying is already sustainable, or there's a way to put sustainable practices in place." Deal pipelines and investment decisions are reflecting this reality across consumer branding, marketing, investing, and capital raising. **Patricia Strensrud (Managing Director, Avalon Net Worth)** views it as "all ages having a growing awareness of the responsibility we have and the need for reducing plastic waste."

Geography also plays a factor in sustainability and ethical choices, as **Mark Bishop (Managing Director and Partner, Aldwych Capital Partners)** noted in his comments. Bishop focuses on the food and beverage vertical, but was not the only one to mention that the buying trends are focusing on domestic or locally grown and made products. He notes that "For us, and this is something very specific to our practice area, is that we started focusing more on domestic assets. We realized that we had a some delay in giving exposure to some of our assets in the emerging markets because of diligence issues. So, what we've done is we've begun to shift more of that to more domestic, North-American-based assets, and we've taken probably a little more of the protein sector" as a result.

While the focus is currently on health, wellness, organic, and technology that supports those products and habits, other areas are likely poised to experience a rebound in the coming year and into 2022. Patricia Stensrud posits that "hospitality and leisure travel will probably come back more quickly than fashion apparel" and **Max Wensel (Associate, Mid-Market Investment Banking; CIBC)** concurs, stating that "there's going to be a lot of pent-up demand in the leisure and hospitality space. I do think there's going to be a pretty big boom after this."

BUYING & SELLING: CHALLENGES, OPPORTUNITIES, AND CURRENT DEALS

Deals are happening at a more typical pace after the significant slowdown in 2020, and Opus Connect queried their network on the different types of buyers that deal professionals are selling to: strategic buyers versus private equity buyers, and the different qualities that these buyers are looking for in a deal. There was overall agreement that there is "a ton of money" in PE lenders at the moment, but there is still a healthy split in type of buyer. **Vidur Kapur (Vice President, TM Capital)** unpacks this topic a bit: "We've seen a pretty healthy split between financial and strategic buyers. Generally, I'd say that is because of the amount of liquidity out there. Private equity firms have been increasingly competitive with strategics in processes and the leveraged availability has enabled that in many ways."

Kapur isn't the only one seeing a split in strategic vs, private equity buyers, as **Jack Steckel (Partner, Capital Canada Limited)** observes that he is seeing "Both. They're looking for revenue, increased sales from current customers and they're looking for where the growth is going to come from." **Stuart Rose (Partner, Mirus Capital Advisors)** noted that he is seeing strategic buyers "but that strategic is a hybrid backed by private equity." Patricia Strensrud explores buying trends further, stating that "We're seeing PE in certain situations, but we're also seeing a lot of creative debt providers who are filling a gap. may point to a desire to build financial resilience into their business model should there be another sudden crisis down the road. Conventional business models were not necessarily working during and immediately after Covid-19, creating a need for agility and the ability to pivot quickly to keep up with supply chain disruption and sudden shifts in consumer behavior. **Kim Karmitz (Senior Vice President, Triangle Capital)** explores this idea, noting that "qualities like scalability, customer loyalty, and a strong brand are important to both sets of buyers. Sustainability is becoming increasingly important in business practices because customers care about it more."

BUILDING RESILIENCE

The idea of building resilience is an appealing one in this current market, as certain types of companies presented a challenge to deal professionals when it came to closing deals. Overall, companies without e-commerce and companies that don't appeal to a younger audience did not do as well, demonstrating the need to be open to creative solutions and possessing the ability to pivot quickly and adapt to new technology. While this adaptation has been a challenge for many, infrastructure is largely in place for many companies to continue with e-commerce platforms and partnerships with large-scale retailers such as Amazon, which was cited frequently by the Opus Connect network as a vital source of distribution during the pandemic.

SPACs

To further the point on creative and unconventional purchases, Opus Connect inquired as to the trend in the Americas regarding special-purpose acquisition companies (SPACs) and mall owners. In terms of this trend continuing in 2021 and beyond, Euan Rellie offered his thoughts and speculation on the topic: "I suspect it's a bubble actually. Smarter bankers and investors than me are divided as to how long it can run. Almost all the IPO activity to date this year has been through SPACs. We see a lot of high-quality, non-SPAC IPOs lined up, so I think there's going to be more conventional IPO activity. But I think some of the SPACs are a bit risky and some of the SPAC investors are overpaying for assets. I do think that we will continue to see different types of transactions."

Justin Schaffer sees pandemic fatigue as one reason that buyers and sellers find SPACs appealing: "Given a lot of buyers had to sit on the sidelines for a few months, focusing on their portfolio companies or just didn't have the freedom to invest in as much as they wanted, there was definitely some deal shortage in terms of attractive opportunities. Now that things have started to rebound and there are a lot more opportunities back on the market, sellers that weren't thinking of selling, now that they've weathered this storm, they don't want to have to weather through another, they may have already weathered the 2008 crash, and they've said enough is enough. Thus, you have a lot more of those deals coming to market."

DISTRESSED TRANSACTIONS

Distressed M&A transactions and consolidation have been on the rise since the pandemic hit, particularly amongst brick-and-mortar, non-food retailers (notably, fashion apparel and department stores) and certain pockets of hospitality and leisure (travel and restaurants). Opus Connect asked its network if they predict a reversal in this space now that deals are rebounding across multiple sectors. General agreement on the part of deal professionals uncovered the following:

- Hospitality, travel, leisure will experience a boost in the near future
- However, these sectors are not going to be the way they were before the pandemic and many will need to adjust to the new landscape
- Overall predictions indicate the restaurants will rebound by fall 2021, and travel will see a more significant increase in consumer spending in 2022

Vidur Kapur sums up the prevailing sentiment regarding distressed sectors, stating that “there have been many fortunate cases in that there’s been enough liquidity and some government support available to survive. Their business is zero and they’re just burning whatever their fixed cost is, and they’ve been able to survive. If you’ve been fortunate enough to have liquidity available and survive through this period of time, knowing that once the vaccine rolls out fully, people will go back to a semblance of normal living, then you’ve been lucky enough that I think there will be a return to something pretty close to normal.”

An insightful take on trends in retail from **Robert Rough (Managing Director, Telos Capital Advisors)** notes that the US was already “over-retailed” and that the “pandemic has accelerated a trend that was already occurring…I think people have become very accustomed to doing meetings online and shopping online.” The direct impact that 2020’s events had on brick-and-mortar retailers, as well as the hospitality and leisure sectors, will play out over the course of 2021 as businesses are required to rely less on government relief measures. This will undoubtedly lead to more consolidations and distressed-asset sales, particularly involving those with outdated and challenged business models that do not demonstrate digital agility and a willingness to pivot quickly in acknowledgement of new consumer habits.

WE ASK THE PROS: WHERE WOULD YOU INVEST?

Opus Connect asked our deal pros: if you wanted to invest personally $1 million in the consumer industry, what kind of company would you invest in? Overwhelmingly, the answers fell along a few specific lines of the consumer market:

- Fitness/wellness
- Retail technology and e-commerce platforms/distribution
- Food/beverage
- Cannabis
- A small business with a product line that has passionate fan base

EXECUTIVE INSIGHT: CONSUMER M&A MARKET

The following section presents a snapshot of executives in the consumer sector. Representing a variety of industries from pet care and beauty to cannabis and food/beverage, these executives have weathered the pandemic and are emerging with a new outlook and new challenges to be dealt with as consumer spending increases and supply chains remain in flux.

The biggest challenges of 2020, ranked by most frequently mentioned by the Opus Connect executive network:

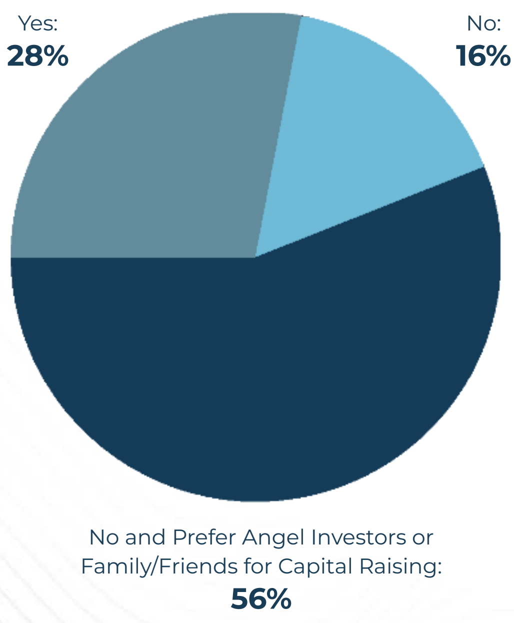
- Supply chain issues were the biggest pain point by far
- Trying to sell to consumers when nothing was happening, there was no travel, and demand disappeared
- Continually selling out because of high demand from people being home
- Brand awareness lacking due to low digital presence
- All wholesale just stopped
- Not equipped for the communication challenges of going remote
- Launching a new site and adapting to all-digital communication and e-commerce

The biggest challenges – that are also opportunities – for 2021, ranked:

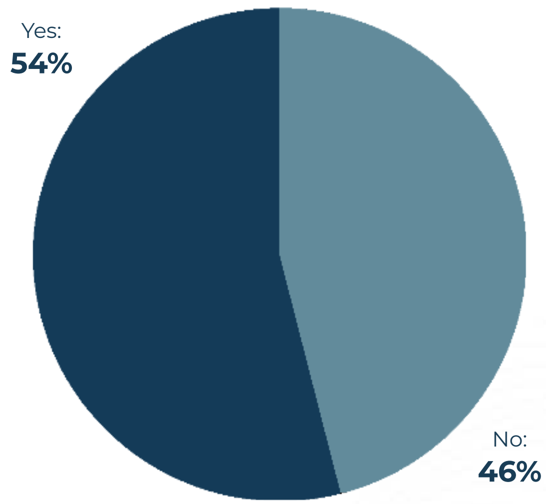
- Sudden increase in volume/demand (by far!)
- Selling direct to consumer via tech platforms/e-commerce
- Ritual change (doing more at home), said by Lee Wallace
- Setting up home offices with cool tech
- Raising capital
- Digital systems that are new and require a certain of level of staff adaptation

Opus Connect also inquired as to partnerships with venture capitalists and private equity firms and lenders and if our executive network is looking to raise capital in 2021.

PARTNERED WITH VC/PE?



LOOKING TO RAISE CAPITAL?



Quick thoughts: What are executives looking for in an investor besides money?

- Experience with our consumer products/our industry
- Someone to “ride along” but not make all the big decisions and not try to change the current culture
- Value alignment
- Operational expertise
- Experience or a desire to create an impact
- Growing the brand
- Freedom to drive decision making
- Someone who can open the door to new opportunities and create new connections
- A strategic partner to assist in decisions and growth while also offering an outside perspective

Regarding this query, **Mike Ferril (CEO, Rosy Rings, Inc.)** effectively articulated his company’s needs: “Somebody that believes in the brand and trusts in the brain. Somebody that doesn’t necessarily want to come in and change who we are or what we do is a company. We still want to make these great, beautiful, handcrafted products and we need somebody that’s going to understand what that is and what that takes.”

Executive predictions and trends for 2021:

- Ecommerce/digital purchasing is essential to stay in the game
- Home offices/home décor will continue to do very well
- Discount retailers will flourish
- Consumers continuing to be eco-conscious and social justice conscious, especially in the wake of the Black Lives Matter movement and the fight for racial equality in the U.S.
- Green technology and green living will continue to grow as consumers remain conscious of climate change, removing our dependence on plastic, and creating sustainable business practices
- There is a lot of excitement in the consumer sector overall, because people will start buying again and new businesses will come to market
- People will seek out things that bring them connection with each other, reinforcing the “power people connection”
- Fulfillment centers need an overhaul and there will be room for innovation and disruption in these older models of fulfilling orders and connecting to the consumer

LEVERAGING E-COMMERCE OVER THE PAST YEAR

Executive strategy was understandably focused on digital platforms in 2020 and into 2021, with this trend showing no signs of stopping. Primary marketplaces for consumer goods included Amazon, Etsy, and Shopify, with many executives asserting that all of their business is now done via e-commerce rather than brick-and-mortar. If they weren’t online before the pandemic, consumer businesses have now made the shift in order to remain viable and compete. Paid ads were mentioned several times as a way of boosting sales and investing in brand awareness via digital marketing and social media is now fully part of the sales strategy. **Lee Wallace (CEO, Peace Coffee)**, who owns an independent coffee company, asserts that "our e-commerce channel grew 285% in 2020. Luckily, we made a lot of investments to optimize our platform, so when the pandemic hit it was a matter of testing. Learning what consumers responded to. Repeat, repeat, repeat and then also selling people on subscriptions. That's a big part of our focus and our emphasis."

Jon Willing (CEO, Precision Quilting Tools) emphasizes a multi-tiered strategy as essential to success: "We have a multi-tiered strategy; we have our own customer list that we've cultivated over the years. We also work with influencers to help promote our products and then online we sell through. We utilize popular online channels such as Amazon and Etsy, amongst others, to directly reach our customers."

One notable exception to this is industries that are subject to a number of regulations and laws, such as alcohol and cannabis sales. These industries cannot sell via e-commerce due to laws surrounding age of purchase, shipping regulations, legality, and other accompanying issues. While e-commerce isn't an option, the executives in these sectors feel confident in their products and that their sales will rebound in 2021 and beyond.

SUMMARY

In examining the dominant trends in the current consumer deal market and how investment bankers, private equity firms, lenders, and executives are navigating 2021's unique demands, the key takeaways from this research include acknowledging a more conservative deal pipeline as consumer behavior rebounds, the absolute necessity of digital flexibility in sales, and that sustainable business initiatives are rewarded by consumers across numerous sectors. The insight provided by transactional professionals in the Opus Connect community gives us a picture of a vertical that has made significant changes to operations, the way professionals think about short- and long-term growth, and how they are positioning their brands for future success.

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