VENUE® Market Spotlight

CONSUMER AND E-COMMERCE M&A

August 2017 Edition
Dear Valued Reader,

Welcome to the August 2017 edition of the Venue Market Spotlight. In this issue, we will look at the rapidly changing consumer and e-commerce sectors.

The growing dominance of the internet in the consumer market is reshaping the industry. For a demonstration of this, look no further than one of the landmark deals of 2017: Amazon’s US$13.4bn acquisition of Whole Foods Market. The combination of the world’s largest online retailer with one of the hottest US grocery operators is emblematic of the changes afoot in the sector.

The blockbuster tie-up has contributed to a breakneck pace for consumer and e-commerce M&A this year. Through the first seven months of 2017, there were 1,423 consumer and e-commerce deals valued at a total of US$321.5bn. That amount already exceeds the total for all of 2016.

It should come as no surprise, then, that a large majority of our respondents in this month’s survey expect activity to increase over the coming 12 months. They foresee more dealmaking in the emerging economies of China and India thanks to greater demand by the growing middle class in those countries. And private equity firms are expected to be extremely active in the sector, which is a traditional focus of financial buyers.

At Donnelley Financial Solutions, we are committed to ensuring that our clients have the most cutting-edge technologies and industry-leading service expertise for their every deal and business need. Our history as the global financial services leader, coupled with our commitment to continued innovation and aggressive investment into our technologies, allows us to provide the greatest breadth of financial solutions on the market.

It’s simply what our clients expect today and will continue to demand tomorrow.

As always, please enjoy this month’s Spotlight.

Sincerely,

Craig Clay
President, Global Capital Markets
Donnelley Financial Solutions
The consumer and e-commerce industries experienced a lull in M&A activity in 2016, but they have rebounded sharply this year. An explosion in the number of megadeals has led overall value through the first seven months of 2017 to exceed all of last year’s total. The biggest contributors have been tie-ups between powerhouse companies in the US and Western Europe, while Asia is quickly drawing the attention of dealmakers as well.

Transformation in the consumer space has led to a paradoxical set of M&A trends. On the one hand, increased competition and pressure on prices has led to a number of mega-mergers, driving up M&A value in the sector. Through July 2017, there were 1,423 deals valued at US$321.5bn in the consumer and e-commerce sectors, which is 192 fewer deals but a 99% increase in value compared to the same period last year.

At the same time, changing consumer habits have caused a wave of distress and bankruptcy among retailers. Private equity-backed companies such as Payless ShoeSource and Gymboree have filed for Chapter 11 this year, and more household names may follow. Risk-hungry investors are on the lookout for assets they think could be revitalized by moving online and paring down their physical store presence.

Our survey respondents believe these dual movements, combined with increasing consumer demand in China and India, will act to boost deal activity going forward. Eight in ten dealmakers said they believe consumer and e-commerce M&A transactions will increase in the next 12 months, and nearly nine in ten said they think private equity purchases will go up as well.

The potential for more activity is certainly present. The question is whether acquirers will continue to make bold moves in their quest for growth despite the evident risks they must overcome.

Other key findings include:

- A large majority of respondents (60%) think China will be among the top two countries or regions with the biggest increase in consumer dealmaking over the next 12 months.
- Clothes and fashion (44%) and beauty and personal care (40%) are the top two sub-sectors that respondents believe will draw attention from acquirers.
- The most-cited barrier to consumer M&A activity is volatility and change in the industry – 64% of respondents said this is among the top two challenges.
SURVEY

Q1 What will happen to consumer and e-commerce M&A activity over the coming 12 months?

Optimism reigns among our survey respondents when it comes to their outlook for consumer and e-commerce M&A activity. Eighty percent of our respondents believe consumer M&A will increase over the coming 12 months, with 12% saying activity will go up significantly and 68% thinking the growth will be moderate.

Some respondents noted that this year has already seen high deal numbers, and they expect these to continue. They also cited the increasingly acquisitive nature of major consumer companies as a reason to predict more transactions. A prime example of this trend was seen in brick-and-mortar pet food retailer PetSmart’s US$3.3bn purchase of online pet food seller Chewy in April.

“So far this year, M&A in consumer retail and e-commerce has outpaced the volume and value compared to 2016, and I feel strongly that M&A activity in this space will continue to increase,” said the CFO of a German beauty products maker. “I see a lot of big brands becoming aggressive with M&A to expand by acquiring competitors. Also, with technology playing a significant role now, it will be all about how quickly you adapt and integrate new technologies.”

Q2 Which countries or regions will have the biggest increase in consumer and e-commerce M&A activity over the next 12 months? (Select top two)

The established economies of North America and Europe currently dominate consumer and e-commerce M&A. But our respondents predict a big future for the emerging markets of China and India. The greatest percentage of our respondents (60%) said China would be among the top two countries or regions to see an increase in the coming 12 months and 48% said India would be in the top two.

In the first seven months of 2017, just 13% of global consumer M&A value was in the Asia-Pacific region (US$42.3bn), compared to 52% in North America (US$169.4bn) and 32% in Europe (US$102.8bn). The volume of deals, however, was significantly different by region: 22% were in Asia-Pacific (318 deals), 28% in North America (404 deals) and 44% in Europe (635 deals).
A partner at a US investment bank that has advised on three consumer deals worth US$1bn or more this year said China and India hold enormous promise for retailers given the rise of the middle class there. “Right now, the focus is where the growth is, and India and China are among the largest consumer markets coming into their own,” the partner said. “The prime advantage there is that they are still not well penetrated, especially in the rural areas, where the spending potential is increasing. That potential can be tapped for a high growth rate over a long period of time.”

Q3 Which consumer and e-commerce sub-sectors will see the most M&A activity over the coming 12 months? (Select top two)

Our respondents were largely split when it came to which sub-sectors they believe will garner the most interest from acquirers over the next 12 months. The greatest percentage of respondents (44%) said clothes and fashion will be in the top two segments, but around 36-40% argued that three other sub-sectors are ripe for activity as well: beauty and personal care, health and wellness, and better-for-you food & beverage.

Indeed, the most high-profile deals of the first seven months of 2017 have been in a variety of consumer segments. In the fashion sector, French lens maker Essilor paid US$25.4bn for Italy-based Luxottica, maker of the iconic Ray-Ban sunglasses, in a deal that consolidated the lens industry significantly. The better-for-you food and restaurant segments saw a noteworthy transaction in Luxembourg-based JAB Holdings’ purchase of US fast casual chain Panera Bread for US$7.4bn.

One trend that will increasingly shape the buying decisions of both consumers and acquirers is online shopping, according to a partner at a UK-based private equity firm currently investing out of a US$500m+ fund. In a recent example of a deal in this area, Wal-Mart bought online fashion retailer Bonobos for US$310m in June to boost its footprint on the web. “M&A for clothing and fashion targets will increase because online retailers will carry out acquisitions to improve their sales platforms and to get access to new technologies,” the PE partner said.

44% OF RESPONDENTS BELIEVE THAT FASHION ASSETS WILL SEE THE MOST DEAL ACTIVITY IN THE NEXT YEAR
Q4  What are the biggest drivers of consumer and e-commerce M&A activity at present? (Select top two)

Two drivers in particular stood out for our respondents when it comes to consumer M&A: the rise of emerging sub-sectors such as fitness brands and healthier food & beverage, and growing demand in emerging markets. Each of these was cited by 48% of respondents as one of the top two trends for the industry.

The evolution of consumer tastes is forcing incumbent brands to use acquisitions as a tool to keep up. In two recent examples from the food sector, French dairy giant Danone bought US organic food maker WhiteWave for US$12.5bn in a deal that closed in April, and the iconic Campbell Soup Company paid US$700m for Pacific Foods of Oregon in July.

The fitness segment is drawing significant attention from investors as well. Private equity firm TPG Growth bought an undisclosed stake in Club Pilates in May, while cycling studio operator SoulCycle has been edging toward an IPO for months.

“Consumer and retail companies are looking for ways to expand their growth and keep up with revenue targets,” said a managing director at one of the top 10 private equity firms in the world by assets under management. “By acquiring assets in new sub-sectors and entering new areas of business, companies can achieve growth and increase their sales volumes to boost revenue.”

Q5  What are the largest barriers to consumer and e-commerce M&A activity at present? (Select top two)

The rapid industry change that is causing many companies to be active acquirers is also making it difficult for others to act, according to our respondents. Nearly two-thirds (64%) said volatility and change in the sector is one the top two barriers to dealmaking, while 36% said uncertainty in international trade policies is a challenge as well.

A noteworthy example of volatility tying the hands of a potential buyer is the situation surrounding US packaged foods titan Kraft Heinz, which is backed by Warren Buffett’s Berkshire Hathaway. Buffett’s company had just under US$100bn in cash at the end of Q2 2017 and is eager to spend on acquisitions, but he has said the list of companies he’d like to buy is very short. Kraft Heinz proposed a massive US$140bn+ tie-up with Dutch-British
consumer goods colossus Unilever, which would create potentially enormous cost synergies, but Unilever reportedly considered the offer too low.

A managing director at a PE firm with more than 10 current investments in the consumer sector said it can be problematic to agree on a price for acquisitions in the current fast-changing environment. “Settling on a value is very difficult, especially for online platforms and new technologies,” the PE managing director said. “This problem is further affected by volatile market conditions that make it difficult to assess the value of a company and the future estimated value. This difference in valuations has led to many failed deals.

**Q6** What will happen to private equity M&A activity in the consumer and e-commerce sectors over the coming 12 months?

Nearly all of our respondents believe private equity buyers will increase their purchases of consumer and ecommerce assets in the coming 12 months. Eighty-eight percent said PE activity in the sector will increase, with 16% saying the uptick will be significant and 72% saying it will be a moderate rise.

The consumer sector has long been a traditional area of focus for the PE sector. Buying activity by PE firms is significantly outpacing last year in value terms, with 307 deals valued at US$52.3bn through the first seven months of 2017, which is five fewer deals but a 56% jump in aggregate value year-over-year. There have been 11 buyouts of consumer and e-commerce companies worth US$1bn or more year-to-date, including Sycamore Partners’ US$6.6bn acquisition of office supply retailer Staples in June.

One intriguing trend to watch is the rise of private equity in Asia, with consumer businesses among the firms’ sought-after targets. In April, a consortium of buyers that included Hillhouse Capital paid US$4.5bn for Belle International Holdings, the largest women’s shoe seller in China. “PE firms are quite committed to investing in the consumer sector,” said the CEO of a Malaysian investment bank. “With growth in the industry driven by changing consumer needs, and technological advancements disrupting the way the sector functions, it is an easy choice for PE firms to invest in and realize returns.”
True Innovation in Deal Marketing

Venue Deal Marketing, powered by Peloton, replaces hard copy and PDF deal books with living, breathing documents that allow investment bankers to communicate opportunities to buyers and investors in a new and dynamic way.

Bring your client’s business to life.
Use video and other rich media content to tell your client’s story. Peloton allows your deal to stand out from the crowd and keeps your buyers and investors interested and engaged.

Follow up and prepare for diligence.
Peloton’s analytics allow bankers to manage, follow up and prepare for diligence. Daily notifications remind bankers to contact specific buyers. Data highlights potential hot button issues.

Streamline your deal process.
Workflow tools are the heart of our platform. From group invitations and automated watermarking to return and destroy notifications, Peloton saves valuable time for your deal team members.

Detailed reader analytics.
Understand reader engagement and use real data to make better decisions. Who is reading? What are they reading? What are they downloading? Who is genuinely interested?

Living, breathing documents.
Unlike hard copy and PDF books, Peloton documents are dynamic and can be updated at any time. Bankers can be sure that all of their buyers are seeing the most up to date information.

Protect your confidential materials.
Venue incorporates government grade encryption; multi-step verification; audit control; automated watermarking; strict timeouts; and strong passwords to protect your sensitive information.
Welcome to Venue® Deal Solutions

Our Venue Deal Solutions streamline every step of the deal life cycle.

- **Venue Corporate Exchange**: Securely share files in an auditable collaboration space as you integrate a new investment, even when you don’t need the complete functionality of a data room.

- **Venue Deal Sourcing**: Live marketplace connecting companies with capital, leading to a larger field of bidders, strategic transactions, and greater deal volume overall.

- **Venue Investor Reporting**: The ideal platform to streamline investor Reporting and maintain compliance.

- **Venue Investor Roadshow**: An interactive toolkit that eliminates the need for a physical roadshow to solicit investment in a public offering, or fundraising of any kind.

- **Venue Deal Marketing**: Bring your company story to life with an interactive, multimedia interface to cast a wider net and communicate value to buyers and investors.

- **Venue Data & Analytics**: Access the tools to better assess an asset’s value via peer analysis, or to better support your valuation with the appropriate comps.

- **Venue Contract Analytics**: Leverage industry-leading artificial intelligence, to reduce the time and cost of due diligence and contract review.

Venue Data Room—Whether conducting due diligence for a merger, raising capital, or developing a document repository, our Venue virtual data room is your ideal workspace for Deals. Done. Simple.
## NOTABLE DEALS IN THE ROOM

*Venue® data room: A special report*

<table>
<thead>
<tr>
<th>Retail</th>
<th>Consumer: Retail; Leisure</th>
<th>Internet / ecommerce</th>
</tr>
</thead>
</table>
| **LOWE’S**  
Acquires  
MAINTENANCE SUPPLY HEADQUARTERS  
$512M  
JUNE 26, 2016 |
| **TOUCHTUNES**  
and  
PLAYNETWORK  
Merge  
MAY 25, 2017 |
| **FLIPKART**  
Agrees to buy  
EBAY INDIA  
$200M  
APRIL 28, 2017 |

<table>
<thead>
<tr>
<th>Consumer: Foods</th>
<th>Consumer</th>
<th>Consumer: Retail; Internet/ecommerce</th>
</tr>
</thead>
</table>
| **US FOODS**  
Acquires  
FIRSTCLASS FOODS  
$55M  
APRIL 24, 2017 |
| **NEW WATER CAPITAL PARTNERS**  
Recapitalizes  
GSC TECHNOLOGIES  
APRIL 11, 2017 |
| **BED, BATH & BEYOND**  
Acquires  
DECORIST  
$5M  
APRIL 7, 2017 |

<table>
<thead>
<tr>
<th>Computer software; Internet/ecommerce</th>
<th>Computer services</th>
<th>Retail</th>
</tr>
</thead>
</table>
| **BLACKBAUD**  
Acquires  
ACADEMICWORKS  
$50M  
APRIL 3, 2017 |
| **CISCO**  
Acquires  
APPDYNAMICS  
$3.7B  
MARCH 22, 2017 |
| **NUTRECO**  
Acquires  
HI-PRO FEEDS  
JANUARY 21, 2017 |

*For more information: Please contact your Donnelley Financial Solutions Sales Rep. Call 1.888.773.8379*  
*Or visit [www.venue.dfsco.com](http://www.venue.dfsco.com)*  
*Venue demo (audio enabled): [Venue.dfsco.com/Demo](http://Venue.dfsco.com/Demo)*
ABOUT DONNELLEY
FINANCIAL SOLUTIONS

Donnelley Financial Solutions (NYSE: DFIN) provides software and services that enable clients to communicate with confidence in a complex regulatory environment. With 3,500 employees in 61 locations across 18 countries, we provide thousands of clients globally with innovative tools for content creation, management and distribution, as well as data analytics and multi-lingual translations services. Leveraging advanced technology, deep-domain expertise and 24/7 support, we deliver cost-effective solutions to meet the evolving needs of our clients.

About Venue

Venue is a secure online workspace with a powerful feature-set and an intuitive design that allow you to easily organize, manage, share and track all of your sensitive information. Venue data rooms provide complete control, ensuring that you can manage who has access to your data room, which documents they see, and how they can interact with those documents.

Venue gives you access to hands-on, start-to-finish service that’s unique in the industry. With a positive service rating of more than 97% from our loyal clients, Venue delivers not just the unmatched features and security you’d expect, but A to Z resources no one else in the industry can.

For more information regarding Venue, Donnelley Financial Solutions, or this report, please contact us directly.

Daniel Perez | Sr. Marketing Manager, Venue Data Room
Donnelley Financial Solutions | www.dfsco.com
255 Greenwich St. | New York, NY 10007 | Phone: 888.773.8379
Fax: 212.341.7475 | daniel.e.perez@dfsco.com
Mergermarket is an unparalleled, independent mergers & acquisitions (M&A) proprietary intelligence tool. Unlike any other service of its kind, Mergermarket provides a complete overview of the M&A market by offering both a forward-looking intelligence database and a historical deals database, achieving real revenues for Mergermarket clients.

Acuris Studios, the events and publications arm of Mergermarket, offers a range of publishing, research and events services that enable clients to enhance their own profile, and to develop new business opportunities with their target audience.

To find out more, please visit www.acuris.com/publications

For more information, please contact:

Erik Wickman
Global Managing Director, Acuris Studios
Tel: +1 212 686 3329