



M&A Predictor: Global Consumer Sector

2018 Annual Report/Sector Report

Includes 2018 Q1 Update
May 2018

KPMG International
Deal Advisory

kpmg.com/predictor-consumer





Consumer markets



James Murray
*Global Head Consumer M&A
Partner, KPMG in the UK*

James has led teams across the full spectrum of transactions and has advised in excess of 100 deals over more than two decades.

“Despite some global political uncertainty, we also see a positive trend in an improving economic outlook that should support corporate performance and confidence for the year ahead.”

~ James Murray, Global Head of Consumer M&A

Consumer Discretionary



26% Market Cap¹ 16% Net Profit² -10% Net Debt² 8% EBITDA¹

Consumer Staple



20% Market Cap¹ 12% Net Profit² -5% Net Debt² 8% EBITDA¹

Look for another year of consolidation and strategic dealing in the Consumer sector as global players continue the drive for sales growth and solid earnings progression in 2018 amid unprecedented transformative change and complexity.

According to the M&A Predictor, corporate appetite for M&A deals in the Consumer Discretionary sector, as measured by forward P/E ratios, is expected to rise by 8 percent in 2018, while deals in the Consumer Staples sector are expected to increase by 7 percent versus 2017.

The capacity of corporates to fund M&A growth is expected to

rise by 17 percent for Consumer Discretionary and 12 percent for Consumer Staples.

“We’re still seeing significant activity being driven by increased strategic focus that is resulting in divestments, like Unilever’s US\$8 billion sale of its spreads business to KKR, or demergers similar to Whitbread’s separation of Costa Coffee from Premier Inn. While corporate balance sheets are healthy and access to capital is encouraging, buyers remain disciplined, although valuations have been creeping up over the past 12 months,” says James Murray, Global Head Consumer M&A.

Source: CapitalIQ and KPMG Analysis
1. As at December 31, 2017 vs as at December 31, 2016
2. December 31, 2017 to December 31, 2018 vs December 31, 2016 to December 31, 2017

"Consumer consumption remains positive across the board, if not exciting. A number of categories are demonstrating strong growth, such as sports nutrition, hydration drinks, healthy snacks, meat substitutes, pet products and beverage mixers. All of these have very exciting prospects and we expect to see more deals in these areas."

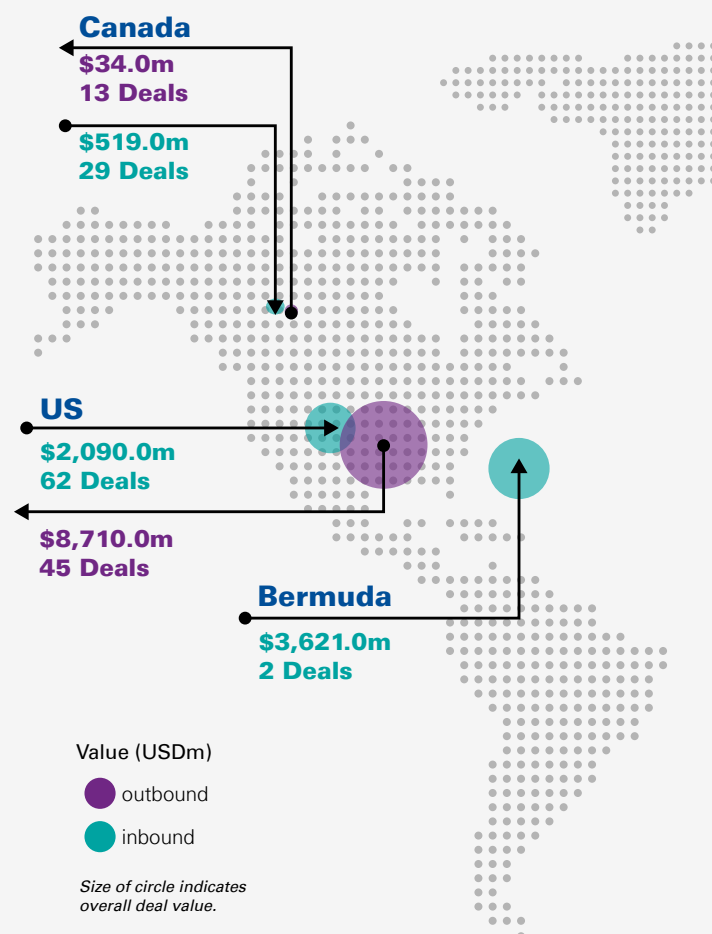
Looking at the first quarter of 2018, however, deal volume dropped to 1,899 deals from 2,483 in Q1 2017 and deal value declined to US\$126

billion from US\$130.9 billion, boosting average deal size to US\$66 million. "The pursuit of growth remains very much top of the agenda," James says. "I think we're going to see more large-cap companies taking action to exit businesses or to run them very differently – reshaping portfolios to make them more relevant to the current consumer environment. The ongoing rationalization and consolidation of portfolios, similar to Nestlé's sale of its US confectionary business to Ferrero, will continue in 2018."

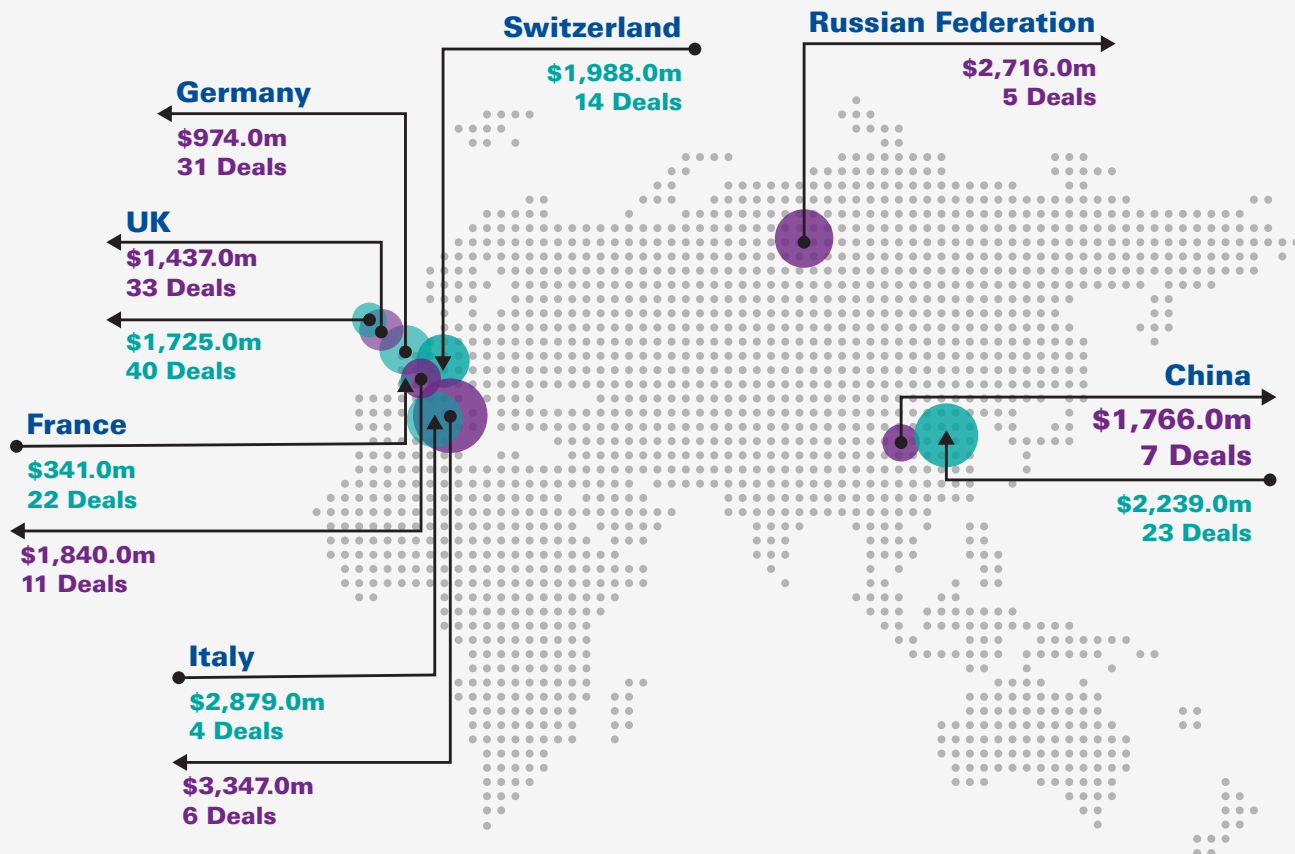
The trend toward a longer-term view in dealings is also expected to continue, along with a willingness to pay a premium for consumer businesses in high-growth markets, James adds. "The model of private capital ownership with parties such as JAB Holdings and 3G Capital is something we expect to see more of in the consumer market, a longer-term ownership model, versus private equity."

Top Countries for Deals

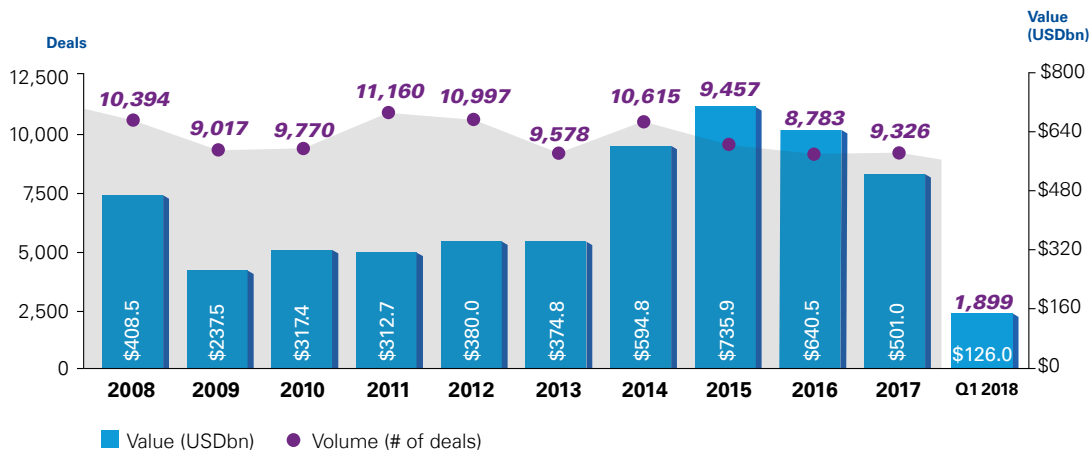
| LARGEST COUNTRIES OF ORIGIN | LARGEST DESTINATION COUNTRIES |
|---|----------------------------------|
| BY \$ | BY \$ |
| United States \$8,710.0m | Bermuda \$3,621.0m |
| Italy \$3,347.0m | Italy \$2,879.0m |
| Russian Federation \$2,716.0m | China \$2,239.0m |
| France \$1,840.0m | Switzerland \$1,988.0m |
| China \$1,766.0m | Japan \$1,847.0m |
| BY # | BY # |
| United States 45 | United States 62 |
| United Kingdom 33 | United Kingdom 40 |
| Germany 31 | Canada 29 |
| Canada 13 | China 23 |
| France 11 | France 22 |



For additional insights into consumer and retail trends for 2018 please see KPMG's report: [Capturing new growth opportunities – Global Consumer and Retail M&A trends 2018](#).



10-year Global Consumer sector volume & value trend



Reviewing 2017

Consumer sector deal activity remained healthy in 2017 following a strong 2016, with a number of mega-deals contributing to an overall 6 percent increase in volume to 9,326.

However, the overall value of deals declined 22 percent to US\$501 billion from US\$640 billion. This is in line with our 2017 M&A Predictor, which anticipated decreases in predicted appetite of 2 percent and 4 percent for Consumer Discretionary and Consumer Basics, respectively.

“We would consider last year a top performing year when you look at the last two decades. Particularly in Europe and especially when we consider deal volume. Europe managed to remain the most active in terms of deal volume despite the backdrop of economic and consumer uncertainty,” says James.

The US, UK and Germany posted the most deals, followed by Canada and France, while the US, Italy and the Russian Federation posted the highest total value of deals, followed by France and China.

Top deals

| | Target Name (Stake %) Target Country | Bidder Name Bidder Country | Value (US\$ million) |
|----|--|---|-------------------------|
| 1 | Dr Pepper Snapple Group Inc (100%) United States | Keurig Green Mountain Inc United States | \$23,312.0 |
| 2 | Blue Buffalo Pet Products Inc (100%) United States | General Mills Inc United States | \$8,030.0 |
| 3 | UBM plc (100%) United Kingdom | Informa plc United Kingdom | \$6,149.0 |
| 4 | Rite Aid Corp (100%) United States | Albertsons Companies Inc United States | \$5,609.0 |
| 5 | Patron Spirits International AG (70%) United States | Bacardi Ltd Bermuda | \$3,570.0 |
| 6 | Nestle SA (US confectionery business) (100%) United States | Ferrero SpA Italy | \$2,800.0 |
| 7 | Magnit OAO (29.1%) Russian Federation | VTB Bank OAO Russian Federation | \$2,448.0 |
| 8 | Spectrum Brands Holdings Inc (41.2%) United States | HRG Group Inc United States | \$2,337.0 |
| 9 | Kroger Co (Convenience store business) (100%) United States | EG Group Ltd United Kingdom | \$2,150.0 |
| 10 | Spectrum Brands Holdings Inc (Battery Business) (100%) United States | Energizer Holdings Inc United States | \$2,000.0 |

How can KPMG help

At KPMG firms, we think like investors, looking at how opportunities to buy, sell, partner or fund a company can add and preserve value. Our teams of specialists combine a global mindset and local experience with deep sector knowledge and superior analytic tools to help you navigate a complex, fragmented process. KPMG professionals can help with business strategy, acquisition strategy, plans for divestments or for raising funds.

Further reading

Please visit the Global Deal Institute to find the latest thought leadership around the complexity of today's deal environment, including:



M&A Predictor/2018 Annual Report with Q1 2018 update

The full report contains a global overview and sector reviews for 4 other key global sectors. The online version also provides interactive charts for cross-regional and cross-sector deal tracking.



2018 Consumer & Retail M&A Trends/Capturing New Growth Opportunities

Report helps see where the opportunities are, and to understand how M&A might be the solution to sustained growth in an ever-evolving market.

kpmg.com/dealsinstitute

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