TM Capital's Consumer Retail Spotlight

Spring 2024

TM CAPITAL
SUCCESS. REALIZED.

What Just Happened?

Out of the Woods

What a long, strange trip it's been. While it's not certain that we're fully "out of the woods" in the consumer market, the brush is definitely beginning to clear with evidence of greener pastures ahead. In the M&A market, the consumer is evidencing more stability, interest rates are no longer rising (with some prospect of decline in the next 12 months) and dealmaking is showing signs of life.

Since COVID-19 took the world by storm in early 2020, the ride in the consumer deal market has been a wild one. At the outset of 2020, the cost of capital was low, supply chains stable, inflation in check and eCommerce predictably gaining a percentage point of retail share annually (in a blissful pre-iOS 14 world). As the initial shock of COVID-19 passed, 2021 proved to be the most robust M&A year on record.

However, the frenzied pace of dealmaking in 2021 came under significant pressure as (i) the wave of COVID demand that drove pull-forward in certain consumer subverticals began to subside, (ii) the freight shortage and subsequent inventory bullwhip cycle kicked into gear, (iii) war and geopolitical instability took hold and (iv) inflation peaked at a 40 year high. The confluence of post-COVID dynamics and general volatility in business trends led to a depressed consumer M&A market over the last two years. After all, "if you are explaining, you're not selling," and the challenges associated with both explaining year-over-year performance trends and producing credible forecasts relegated most consumer businesses to the M&A sidelines.

	2019	2021	2023
U.S. Personal Savings Rate (1)	7.4%	11.1%	3.8%
Federal Funds Rate (1)	1.6%	0.08%	5.3%
Avg. Shipping Container Cost (2)	$2,051	$10,023	$2,593
Inflation Rate (1)	2.3%	7.0%	3.1%
eComm. Share of Retail Sales (3)	17.3%	22.2%	21.4%

It is no wonder that, as these pressures subside and yield to a more constructive macro outlook, increasingly optimistic consumer sentiment is emerging in 2024. With the inventory bullwhip cycle having mostly played out by the end of 2022 (and year-over-year comps beginning to make intuitive sense again), coupled with subsiding inflationary pressures, an improving lending market and a handful of encouraging recently announced consumer deals, business owners and financial sponsors are beginning to more actively assess M&A opportunities for their businesses. In fact, in the first 45 days of 2024, TM Capital has closed three consumer deals across the food, retail and home categories. In this edition of the TM Capital Consumer Retail Spotlight, we will examine in more detail the challenges that business owners have faced over the last few years, and how buyers, sellers and investors are approaching the consumer world as we enter 2024.

When You're **Explaining**, You're **Not Selling** – And the Last Few Years Have Left Consumer Business Owners with Lots to Explain!

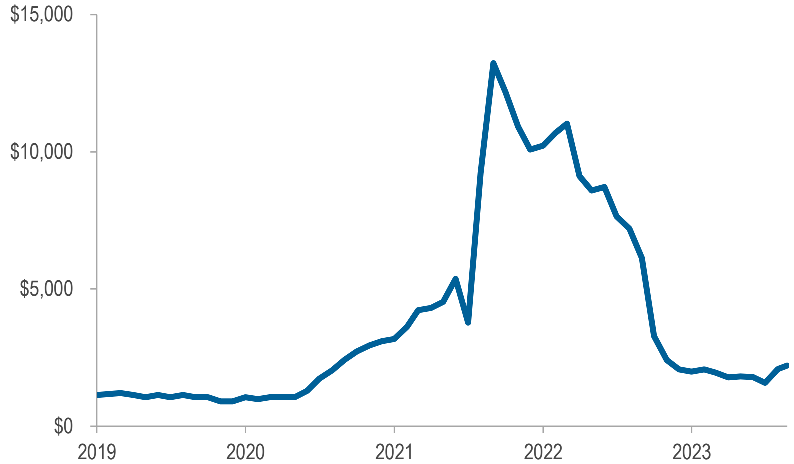
- 2019: 10th Consecutive Year of Job Growth; GDP Increases by 4.1%
- March 2020: WHO Declares COVID19 a Global Pandemic; A $2.2T Stimulus Package is Signed into Law
- December 2020: A Second, $900B Stimulus Package is Signed into Law
- August 2021: Cost to Ship from Shanghai to US Reaches All-Time High
- February 2022: Russian Invasion of Ukraine; US eCommerce Sales Top $1 Trillion for the First Time
- March 2022: The Fed Begins a Series of 11+ Rate Hikes
- June 2022: Inflation Rate Reaches a 40-Year High
- H2 2022: Inventory Bullwhip Cycle Begins to Normalize
- H2 2023: YoY Comps Begin to Normalize & Operating Noise Recedes Further into the Rearview Mirror

2019 | 2020 | 2021 | 2022 | 2023

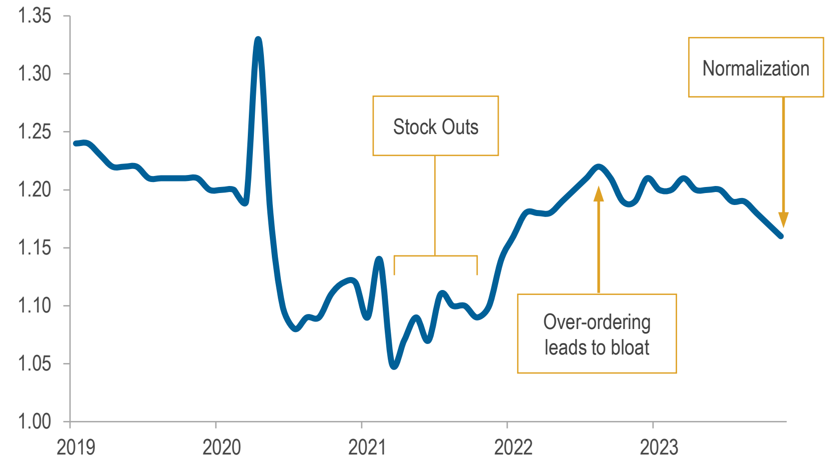
(1) FRED
(2) Statista; MacroMicro; source tracks freight costs of 40ft containers from Shanghai to New York & Shanghai to Los Angeles
(3) Department of Commerce, Q3 2023; Total Retail Sales excludes motor vehicle & parts dealers, restaurants, bars, gasoline stations & fuel dealers

The Freight Market's Wild Ride (and Recovery)

Average Shipping Container Costs (China to West Coast) [1] *(Jan '19 – Aug '23)*



Seasonally Adjusted Retail Inventory-to-Sales Ratio [2] *(Jan '19 – Nov '23)*



As consumer bank accounts benefited from unprecedented levels of fiscal stimulus (and low interest rates), demand for certain product categories such as home and recreational goods peaked, causing supply chains around the world to come undone.

> *"Improving supply chain trends and leaner positions have helped…return to a more normalized planning / ordering / buying timeline with greater predictability"*
>
> **Analyst Research Note, Q2 2023**
> Telsey Advisory Group

The Russia-Ukraine war further exacerbated the issue. This continued through much of 2022 as the cost of shipping a 40-foot container across the Atlantic skyrocketed from $2k up to $30k+ in some cases. And that was IF you could get your hands on a committed container.

The second-order effect of this was that retailers over-ordered going into the 2021 holiday season – hoping to fill their shelves (or e-commerce warehouses) with whatever they could get their hands on.

Throughout this period, retailers ordering products in response to soaring demand were unable to receive them in time for key seasonal periods (and thus began the bullwhip cycle).

Brands and retailers were squeezed on both ends – unable to fully capture demand due to stock outs and extremely pressured on margins for products they could procure due to extraordinary freight costs.

As companies finally received goods in early to mid 2022, it was too late, and the inventory bloat had begun. Retailers struggled to close out of large inventory positions as they moved into the back half of 2022. As evidenced in the chart above – the retail inventory-to-sales ratio is normalizing to pre-pandemic levels.

> *"The supply chain is in a good place with freight costs, shipping times and performance significantly better than last year…"*
>
> **Scott Lipesky, Q2 2023**
> CFO & COO, Abercrombie & Fitch

> *"Our assessment is that the inventory sales ratios are really back to the pre-pandemic levels…"*
>
> **Matthew Shay, Q2 2023**
> CEO, NRF

(1) Statista; MacroMicro; source tracks freight costs of 40ft containers from Shanghai to Los Angeles
(2) FRED, Bureau of Labor Statistics; excludes motor vehicle and parts dealers

Market Trends Reverting to Normal – and Where We Are Headed Next

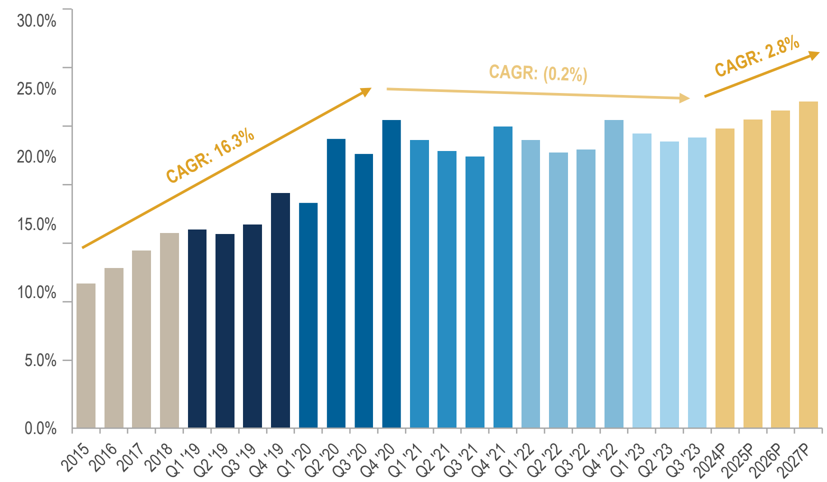
From "Flat is the New Up" to Renewing Tailwinds

The biggest winners during the pandemic era became some of the most challenged segments of the consumer landscape in the couple of years that followed. While eCommerce penetration of overall retail sales is still elevated relative to pre-pandemic levels, the pandemic era accelerations began to reveal themselves as pull-forwards of future growth rather than a "new normal."

Many consumer businesses, particularly those marketing discretionary items linked to home or recreation, further benefitted from category related spikes in demand that, again, proved to have been the result of a pull-forward effect. As a double whammy… the companies that placed large orders to meet extraordinary demand in this challenged supply chain environment were hit the hardest by inventory bloat when demand later faltered. Following this "lived experience", it is no wonder that one of the most oft heard phrases about 2023 at the ICR Consumer Conference this January was "flat is the new up."

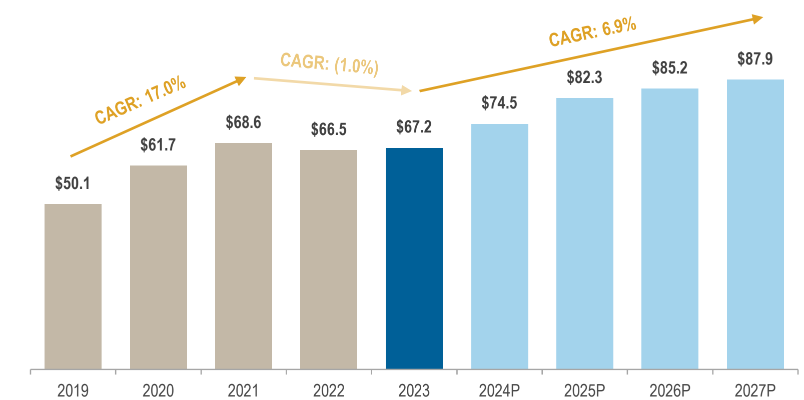
With the aftereffects of these pull-forwards now receding further into the past, we believe that businesses in these categories are slated to return to growth as headwinds convert back to tailwinds driven by ordinary course long term growth trends.

Historical & Projected eCommerce Penetration (1) (2) *(Jan '19 – Nov '23)*



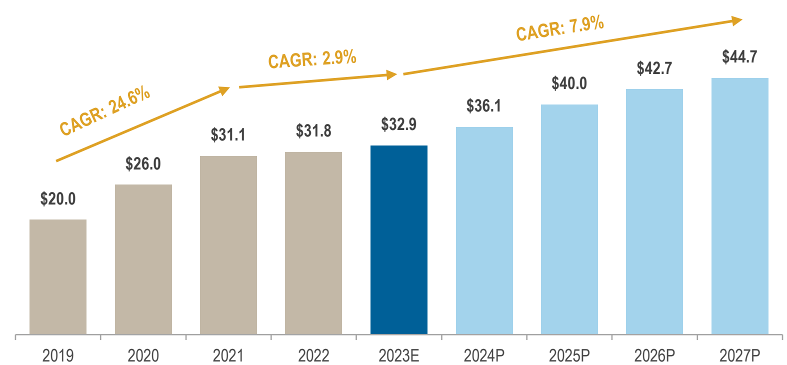
Historical & Projected U.S. Furniture Market Size (3)

($ in billions)



Historical & Projected Global Outdoor & Recreation Market Size (4)

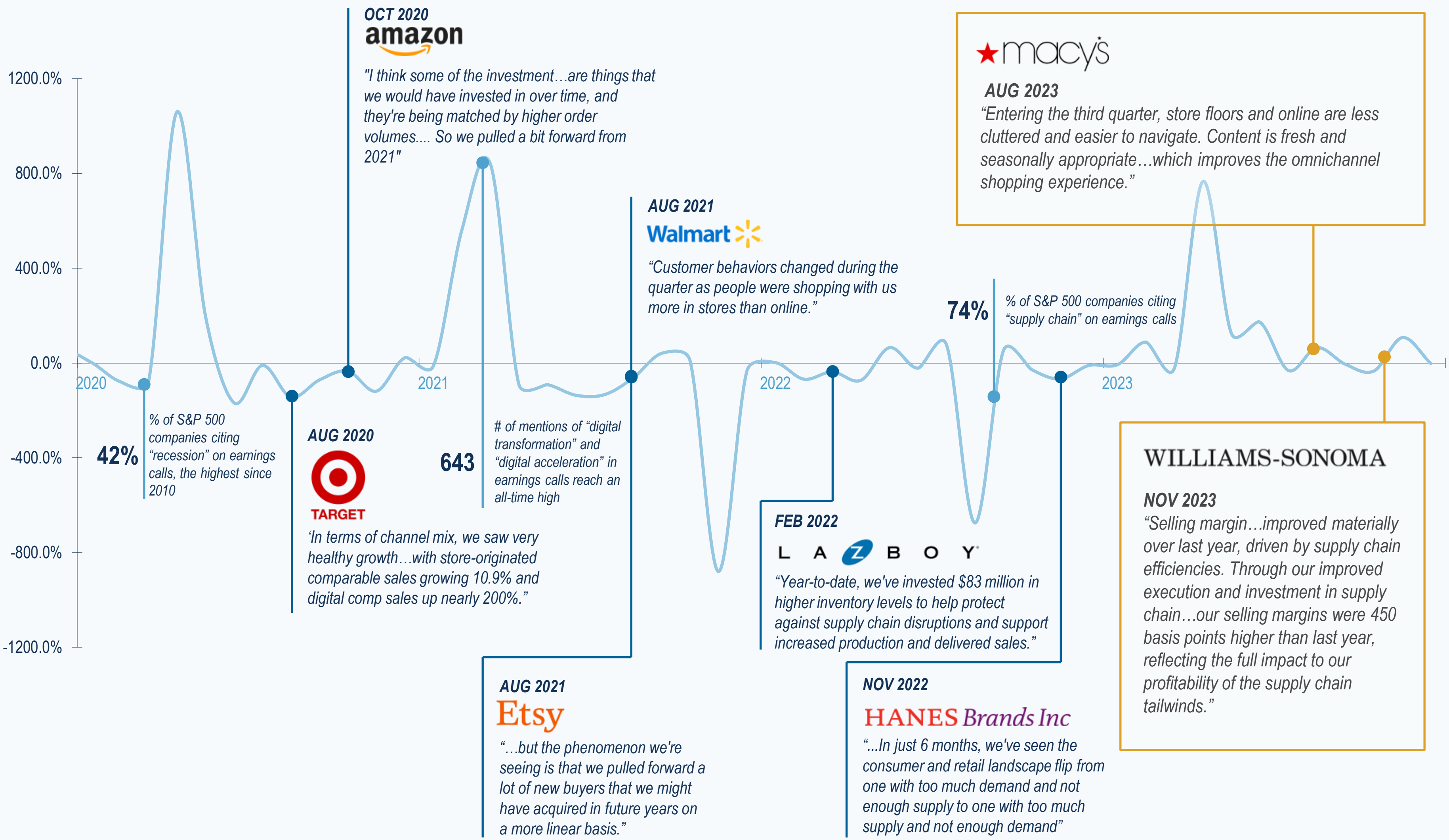
($ in billions)



(1) Department of Commerce, Q3 2023, Total Retail Sales excludes motor vehicle & parts dealers, restaurants, bars, gasoline stations & fuel dealers
(2) AllianceBernstein
(3) Statista, U.S. Furniture Industry Revenue
(4) Statista, Sports Equipment Report, 2023

Volatile Comps Send Corporate Sentiment on a Roller Coaster

YoY % Change in Retail Sales (1)



(1) FRED, Retail Sales % Change, Not Seasonally Adjusted

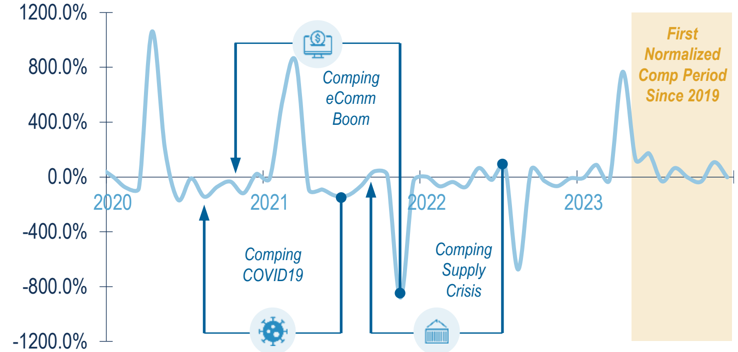
Clarity in the Markets and Institutional Capital Dynamics to Drive Accelerating M&A

Improved Clarity on Performance To Drive Accelerating M&A

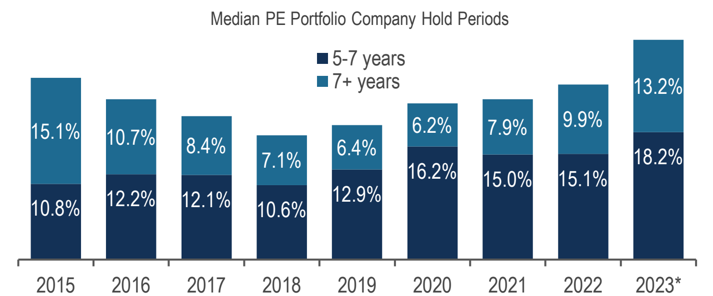
As we enter 2024, this is the first time since the early months of 2020 that companies in the consumer sector can walk away from a high-level monthly review of their y-o-y performance with a clear perspective of their business' health. In 2021, by contrast, businesses were "comping" past the lockdown period. In 2022, businesses were struggling with supply chain, which unduly impacted normal seasonality trends. In the first half of 2023, businesses were going up against 1H 2022, when inventory levels began to swell. Eventually, towards the back of 2023, seasonality trends began to normalize.

What does this all mean for buyers, sellers and investors in today's consumer market? We believe that this newfound clarity is likely to usher in a period where consumer businesses are comfortable testing the M&A market again. We are already seeing significant evidence of this in our own practice.

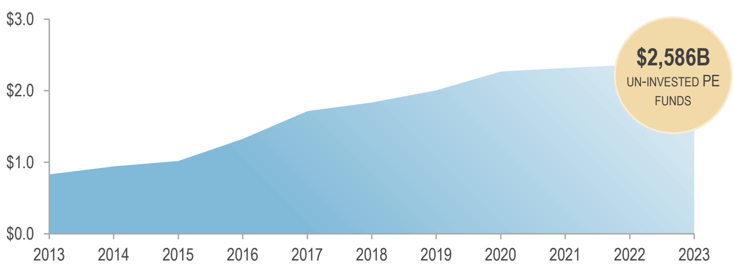
Challenging Comps - YoY % Change in Retail Sales (1)



PE Funds Are Holding On Longer (2)



Private Equity Dry Powder Rises to an All-Time High (3)



Dry Powder & Drive for Liquidity Likely to Drive Transaction Activity

An abundance of capital remains on the sidelines waiting to be deployed – both in the hands of private equity and strategic acquirers. As of December 2023, nearly $2.6 trillion raised by private equity firms still needs to be invested – an unprecedented level of "dry powder." [3] Furthermore, limited partners (LPs) are clamoring for liquidity as private equity firms lagged with capital distributions over the past 18 months and median hold periods reached an all-time high. As equity portfolio performance surged in 2023, LP allocations entering 2024 are disproportionately skewed, necessitating deal proceeds for portfolio rebalancing. If generating a few realized gains (as LP's are increasingly demanding) helps a GP raise a new fund, they are likely to determine that realizing a lower return today is more valuable than betting on a higher upside exit in the future. We believe that the (i) demand for liquidity on longer held investments, (ii) record dry powder and (iii) recovering portfolio company performance will contribute to a substantial increase in M&A activity this coming year.

Cautious Optimism

While consumer credit card debt recently reached new peaks and consumer confidence decreased in February after three consecutive months of gains, it is important to contextualize these data points within broader economic trends. Factors such as low unemployment and manageable debt service ratios mitigate some of these risks. Dana Peterson, Chief Economist at The Conference Board, noted in a recent release that "more positive views of business conditions and…employment" are buoying consumers' assessment, reflective of "slower inflation, anticipation of lower interest rates ahead and generally favorable employment conditions." As private business owners gain a clearer sense of their own companies' health and private equity firms consider fundraising in a tougher environment with LPs demanding liquidity, both groups are more apt to evaluate exits. These dynamics, paired with a record amount of capital that needs to be deployed, set the stage for a busy year ahead.

(1) FRED, Retail Sales % Change, Not Seasonally Adjusted
(2) Pitchbook, *as of October 18, 2023
(3) CapIQ

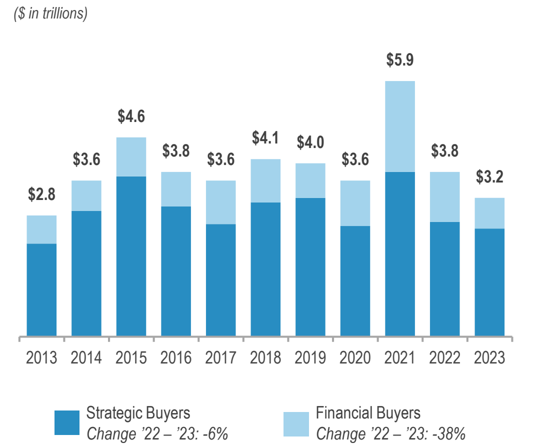
Quality Over Quantity

Scarcity Value

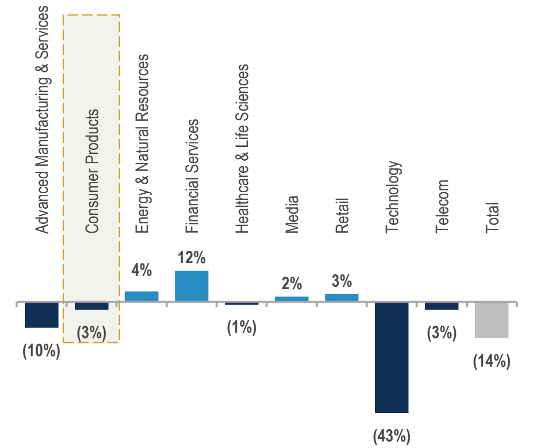
Global deal volume is down 44% from the 2021 peak yet enterprise valuations in the consumer market have evidenced resiliency in the face of inflation and increased financing costs. How is this possible? Scarcity value. Headline M&A statistics mask the attention that high quality, well-performing consumer assets have been receiving from strategic and private equity buyers – particularly in the middle market.

Consumer indices and the median EV / EBITDA for consumer M&A deals have held up remarkably well. We are seeing resiliency across categories in consumer this year, with transactions including J.M. Smucker's acquisition of Hostess at over 17x EBITDA, L'Oreal's acquisition of Aesop for over 24x and toy brand Spin Master Corp's acquisition of Melissa and Doug at 10.5x.

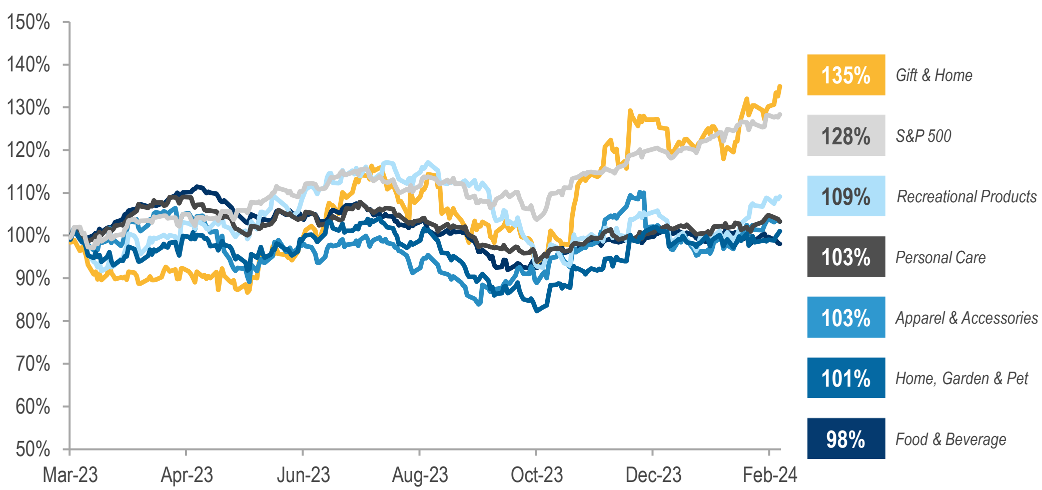
Global M&A Market Value Down 15% (1)



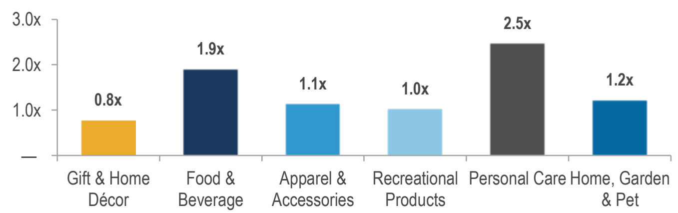
Median EV/EBITDA YTD Jun-23 %Δ - Corp M&A (1)



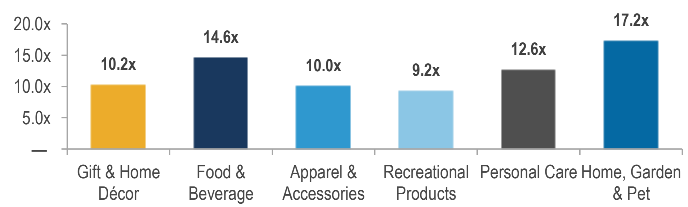
LTM Stock Price Index (2)



Enterprise Value / LTM Revenue (2)



Enterprise Value / LTM EBITDA (2)



(1) Dealogic
(2) Capital IQ as of February 29, 2024

Select Market Transactions

Mar 2024
RESIDENT
ACQUIRED BY
ASHLEY
Resident Home is the #1 DTC mattress retailer in North America, best known for its Nectar & DreamCloud brands

Feb 2024
A SUBSIDIARY OF
KEECO
A PORTFOLIO COMPANY OF
CENTRE LANE PARTNERS
ACQUIRED BY
Salt Creek Capital
Pacific Coast Feather Cushion manufactures natural fill cushion inserts

Feb 2024
ROGAN'S SHOES
ACQUIRED BY
SHOE CARNIVAL
Rogan's Shoes is a footwear retailer operating 28 stores across WI, IL and MN

Feb 2024
ChapStick
$430
ACQUIRED BY
Suave
Chapstick widely distributes collections of branded lip balms

Jan 2024
SPERRY
$207
ACQUIRED BY
authentic
Sperry Top-Sider designs, manufactures and sells sailing / boating footwear

Jan 2024
saco
A PORTFOLIO COMPANY OF
B·C·P Benford Capital Partners
ACQUIRED BY
FENGATE
The Saco Foods platform offers multiple shelf-stable branded ingredients

Dec 2023
La COLOMBE COFFEE ROASTERS
$900
ACQUIRED BY
Chobani
La Colombe Torrefaction produces packaged coffee and operates coffee shops

Nov 2023
THE BODY SHOP
$223
ACQUIRED BY
AURELIUS
The Body Shop sells branded beauty and personal care products through its own stores

Nov 2023
Hostess BRANDS
$4,600
17.2x
ACQUIRED BY
THE J.M. SMUCKER Co
Hostess Brands, Inc. is a sweet snacks company with brands including Twinkies, Donettes and Voortman

Nov 2023
Blue Apron
$103
ACQUIRED BY
WONDER
Blue Apron is a meal preparation kit delivery company selling plans online

Oct 2023
TCK
A PORTFOLIO COMPANY OF
HURON CAPITAL
HAS COMPLETED A DEBT FINANCING WITH
Boathouse
TCK is the largest domestic manufacturer of branded on-field athletic socks

Oct 2023
Melissa & Doug
$950
10.5x
ACQUIRED BY
SPIN MASTER
Melissa & Doug manufactures toy and children's products

Aug 2023
sovos brands
$2,700
ACQUIRED BY
Campbell's
Sovos Brands sells brands including Rao's, noosa, Birch Benders and Michael Angelos

Aug 2023
DVFG
ACQUIRED BY
Staple Street CAPITAL
Delaware Valley Floral Group offers fresh flowers & supplies to florists & supermarkets

Aug 2023
Aēsop.
$2,525
ACQUIRED BY
L'ORÉAL
Aesop manufactures personal and cosmetic products for self and home

Jul 2023
MATTRESSFIRM
$2,700
9.3x
ACQUIRED BY
TEMPUR+SEALY
Mattress Firm operates a chain of retail stores selling mattresses & accessories

Jun 2023
IRA GREEN
A PORTFOLIO COMPANY OF
SUMMER STREET CAPITAL PARTNERS
ACQUIRED BY
MAIN ST CAPITAL CORPORATION
Ira Green provides essential non-combat products for U.S. military personnel

Feb 2023
MIMI'S ROCK
$18
10.6x
ACQUIRED BY
FITLIFE BRANDS
Mimi's Rock markets and distributes wellness products through online channels

Dec 2022
BROWNIE BRITTLE
A PORTFOLIO COMPANY OF
encore consumer capital
ACQUIRED BY
SECOND NATURE BRANDS
A PORTFOLIO COMPANY OF
CAPVEST
Brownie Brittle produces America's #1 brownie snack brand

Nov 2022
SULLIVANS BRANDS
A PORTFOLIO COMPANY OF
FORT POINT CAPITAL
ACQUIRED BY
ICV PARTNERS
Sullivans is an omnichannel retailer of a portfolio of giftable items & home decor

Sep 2022
Hero.
$630
14.0x
ACQUIRED BY
CHURCH & DWIGHT CO., INC.
Hero Cosmetics manufactures cosmetic products for acne-prone skin

TM CAPITAL TRANSACTION | ENTERPRISE VALUE ($ IN MILLIONS) | EBITDA MULTIPLE

TM Capital's Consumer Practice Remains Highly Active

Selected TM Capital Transactions

Despite consumer M&A market headwinds over the last 18 months, TM Capital's consumer group has remained busy and closed three deals in the first 45 days of 2024 alone.

Feb 2024

A SUBSIDIARY OF

KEECO

A PORTFOLIO COMPANY OF

CENTRE LANE PARTNERS

HAS BEEN ACQUIRED BY

Salt Creek Capital

Pacific Coast Feather Cushion is a leading domestic manufacturer of highly-engineered natural fill cushion insert components to the U.S. upholstered furniture industry

Feb 2024

ROGAN'S SHOES

HAS BEEN ACQUIRED BY

SHOE CARNIVAL

Rogan's Shoes complements its consumer business with a high-growth B2B safety footwear program, outfitting "pro-sumer" employees throughout the Midwest with safety-compliant, employer-funded work shoes – on-site, in-store and online

Jan 2024

saco

A PORTFOLIO COMPANY OF

B·C·P Benford Capital Partners

HAS BEEN ACQUIRED BY

FENGATE

The Saco Foods platform includes multiple category leading brands including *California Sun Dry, Dolci Frutta, Saco Pantry, Solo Foods* and *Hoosier Hill Farm*

Oct 2023

TCK

HAS COMPLETED A FINANCING WITH

Boathouse

TCK is the category leader in the attractive team sports sock market, which is underpinned by resilient youth athletics participation rates driving robust, re-occurring demand

Aug 2023

DVFG

HAS BEEN ACQUIRED BY

Staple Street CAPITAL

Delaware Valley Floral Group's extensive assortment of fresh cut flowers benefits from predictable, re-occurring demand from holidays and lifecycle events (weddings, baby showers, funerals)

Jun 2023

IRA GREEN

A PORTFOLIO COMPANY OF

SUMMER STREET CAPITAL PARTNERS

HAS BEEN ACQUIRED BY

MAIN ST CAPITAL CORPORATION

Ira Green provides essential non-combat products (military insignia, tactical gear and commemorative products) to the large captive market of U.S. military personnel and their families

Jun 2023

CARLISLE wide plank floors

A PORTFOLIO COMPANY OF

JMH Capital

HAS BEEN ACQUIRED BY

SWITCHBACK

Carlisle Wide Plank Floors designs, manufactures and sells luxury hardwood wide plank flooring, leveraging analytics and a consultative sales team to serve consumers and trade professionals

Dec 2022

BROWNIE BRITTLE

A PORTFOLIO COMPANY OF

encore consumer capital

HAS BEEN ACQUIRED BY

SECOND NATURE BRANDS

A PORTFOLIO COMPANY OF

CAPVEST

Brownie Brittle produces America's #1 brownie snack brand and appeals to enduring consumer demand for "permissible indulgences"

Nov 2022

SULLIVANS BRANDS

A PORTFOLIO COMPANY OF

FORT POINT CAPITAL

HAS BEEN ACQUIRED BY

ICV PARTNERS

Sullivans' portfolio of giftable items and home decor benefits from stable, re-occurring demand driven by occasions and lifecycle events

TM Capital Subsector Expertise

Food & Beverage

- Brownie Brittle — HAS BEEN ACQUIRED BY Second Nature Brands
- Engelman's Bakery — HAS BEEN ACQUIRED BY Shoreline Equity Partners
- Hostess In-Store Bakery Division — HAS BEEN ACQUIRED BY Sara Lee
- Tate's Bake Shop — HAS COMPLETED A RECAPITALIZATION WITH Riverside
- Starbucks Coffee — HAS SOLD AN INTERNATIONAL DIVISION

eCommerce

- TCK Socks Since 1961 — A PORTFOLIO COMPANY OF Huron — HAS COMPLETED A DEBT FINANCING WITH Boathouse
- OOFOS — HAS COMPLETED A GROWTH CAPITAL FUND ROUND
- cpap.com — HAS RECEIVED A STATEGIC INVESTMENT FROM Cathay Capital 凯辉基金
- RESIDENT — HAS COMPLETED A SERIES OF STRATEGIC FINANCING TRANSACTIONS
- Big Blanket Co — HAS COMPLETED A RECAPITALIZATION WITH Altacrest Capital

Outdoor & Recreation

- i2 / Core Equipment — A PORTFOLIO COMPANY OF b Capital — HAS BEEN ACQUIRED BY Clearview Capital / Vertikal Brands
- Pebble Technology International — A PORTFOLIO COMPANY OF Graycliff Partners / Seaside Equity Partners — HAS BEEN ACQUIRED BY Oldcastle APG, A CRH Company
- Z1 Motorsports — HAS BEEN ACQUIRED BY EAH — A PORTFOLIO COMPANY OF Cortec Group
- Cruisers Yachts — HAS BEEN ACQUIRED BY MarineMax
- Walpole Outdoors — HAS BEEN ACQUIRED BY Argosy Private Equity

Gift & Home

- Pacific Coast — A SUBSIDIARY OF Hollander — A PORTFOLIO COMPANY OF Centre Lane Partners — HAS BEEN ACQUIRED BY Salt Creek Capital
- DVFG — HAS BEEN ACQUIRED BY Staple Street Capital
- Sullivans — HAS BEEN ACQUIRED BY ICV Partners
- Michel Design Works — HAS BEEN ACQUIRED BY Stonewall Kitchen
- mudpie — HAS COMPLETED A DEBT RECAPITALIZATION WITH Goldman Sachs

TM Capital Consumer Team

ABOUT TM CAPITAL

Founded in 1989 and now part of Janney Montgomery Scott, TM Capital is the client-first investment banking team advising industry leading companies across North America and around the world, In everything we do, our professionals share a relentless commitment to engineering extraordinary outcomes with an unmatched standard of client care. Over the last three decades, we have completed more than 350 transactions with a combined value in excess of $25 billion. With offices in Atlanta, Boston and New York, our mission critical capabilities include: complex mergers and acquisitions; debt and equity financings; minority and majority recapitalizations; restructurings; and board advisory services.TM Capital is also a founding member firm of Oaklins, the world's most experienced mid-market M&A advisor with 700 M&A professionals in 60 offices operating in the major financial centers around the world. For more information, please visit www.tmcapital.com.

To learn more about TM Capital and discuss our work with leading companies in the sector, please contact any of our team members below:

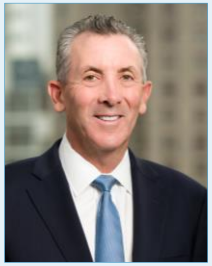
Consumer Team Leadership

CRAIG GIBSON

Managing Director
(617) 259-2204
cgibson@tmcapital.com

PHIL KRIEGER

Managing Director
(404) 995-6235
PKRIEGER@TMCAPITAL.COM



JIM GRIEN

Vice Chairman &
Co-Head of TM Capital
(404) 995-6235
JGRIEN@TMCAPITAL.COM

KATIE KOHLI

Director
(404) 995-6233
KKOHLI@TMCAPITAL.COM

BRAD GOLDSTEIN

Vice President
(404) 995-6248
BGOLDSTEIN@TMCAPITAL.COM

DISCLAIMER

NEW YORK

641 Lexington Avenue
32^{ND} Floor
New York, NY 10022

212.809.1360 Office

BOSTON

201 Washington St
32^{nd} Floor
Boston, MA 02108

617.259.2200 Office

ATLANTA

1230 Peachtree Street NE
Suite 550
Atlanta, GA 30309

404.995.6230 Office