



# Baker McKenzie.

## Global Transactions Forecast 2020

### Consumer Goods & Retail Deal Trends

## Global Transactions in the Consumer Goods & Retail Sector: Time to Take Stock?

As the global economy slows down in reaction to a challenging environment impacted by volatile geopolitical events, so will the consumer goods and retail (CG&R) sector. While companies remain interested in entering transactions, they will take care in doing so, as to mitigate the impact of the current economic downturn.

The firm's fifth annual Global Transactions Forecast, produced in conjunction with Oxford Economics, explains that M&A in the sector will decline globally from USD 581 billion in 2019 to USD 414 billion in 2020. The report also points to a downward trend in IPO proceeds from an estimated USD 31 billion in 2019 to USD 18 billion in 2020.

The CG&R sector forecast is in line with the global trend. The Global Transactions Forecast predicts that M&A activity overall will fall from USD 2.8 trillion in 2019 to USD 2.1 trillion in 2020, before recovering in 2021.

Yet despite a slump in activity, the sector is still significantly more buoyant in terms of value than any other — including tech, healthcare and industrials.

Alyssa Auberger, Global Chair of Baker McKenzie's Consumer Goods & Retail Group, explains that while the possibilities for megadeals in the sector may have dwindled, there should be appetite for acquisitions that help companies improve their infrastructure. "To cite just one example, acquisitions of tech companies may provide significant commercial competitive advantage to consumer companies who are not tech experts and do not have the ability nor time to create the technology they need organically. Whether it's block chain related to traceability, artificial intelligence to help understand consumer demand in order to adapt supply and reduce overproduction of product,

or using data to better understand and customize a personalized experience, tech companies could remain very strong targets for acquisitions."

M&A Partner Darcy Down agrees,



**"Consumer companies are actively looking for partnerships, for acquisitions with tech companies, trying to boost their own productivity internally or outwardly to the consumer, enhancing and differentiating themselves in the consumer experience."**

However it's not "out with the old in with the new." Alyssa also adds that she expects to see more partnership activity to respond to increasing consumer interest in the fast-growing second-hand market and the circular economy — such as the recent RealReal partnerships with both Stella McCartney and Burberry. "These kinds of partnerships allow big brands to capture the vintage or second-hand market, encourage re-use and recycling, as well as reach a [potentially] new customer — and create loyalty with their current customer base — rather than having the second-hand market segment completely outside of their own circle of interest."

Alyssa also adds,



**"I also don't think that we've seen the end of the 'experiential' trend — whether it's luxury-branded hotels or brand-related in-store café concepts — which could induce additional transactional activity, such as partnerships and joint ventures as well as acquisitions."**

In terms of listings, Baker McKenzie expects the forecast decline is part of overall economic shifts. Capital Markets Partner Adam Farlow explains,



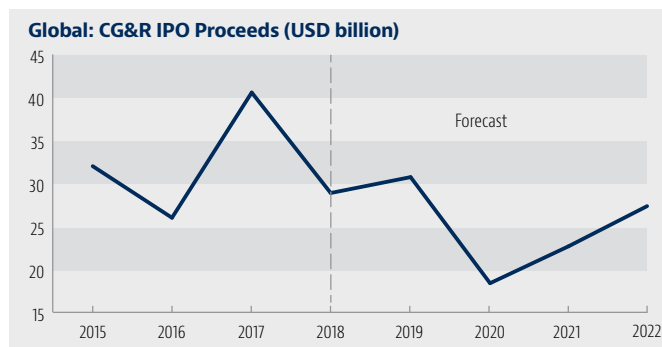
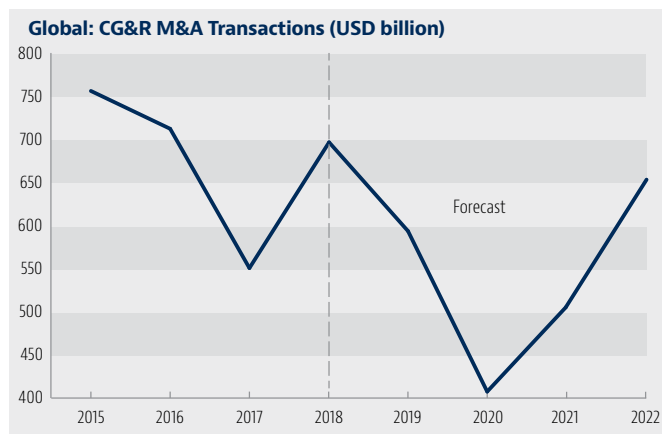
**"The key theme with CG&R IPO activity is that we anticipate it will track overall IPO activity in the market, perhaps in a slightly exaggerated way in terms of peaks and troughs, given the reasonably direct connection between CG&R and overall global macroeconomic activity. CG&R does well in growing GDP and does less well in declining GDP, perhaps more so than some other industries which can find themselves to be more stable."**

One of the biggest IPO transactions of 2019 came from ride-hailing giant Uber, which raised USD 8.1 billion, placing it among the 10 largest US IPOs of all time. This was surpassed by Chinese e-commerce leader Alibaba, which conducted a second listing in Hong Kong, raising around USD 11.3 billion. This transaction has not been included in Baker McKenzie and Oxford Economics' data, as the firm already trades in the US.

#### **SUBSECTORS: FOOD FOR THOUGHT OR A BOOM FOR BEAUTY?**

Baker McKenzie expects that both the beauty and the food and beverage sectors will see significant activity in the next 12 months. Food and beverage remains particularly active due to the continued consumer demand for health and wellbeing, "particularly in Asia where it speaks to rising consumer affluence," explains M&A Partner Brian Chia. Alyssa Auberger adds, "I suspect we'll continue to see focus on healthy, ethical, authentic products, as consumers are more aware of eating better, consuming responsibly and sustainably, and buying ethically-sourced food."

Sustainability is also an important factor for driving activity in the beauty sector. This is evident in Estée Lauder's recent decision to become the first prestige beauty company to execute a virtual Power Purchase Agreement for renewable energy.



#### **US AND ASIA CONTINUE TO DOMINATE DEAL ACTIVITY**

Baker McKenzie's Global Transactions Forecast notes that North America is the outlier to the global trend of an economic downturn, as easy financing conditions, tax cuts and a strong US economy helps drive deal activity. "The US still remains strong," Darcy says. "I think in particular, shareholder activism in North America continues to drive M&A." A recent example of this is Saks Fifth Avenue owner Hudson's Bay Co, who announced in October that it agreed to a sweetened USD 1.9 billion offer from a shareholder group led by executive chairman Richard Baker to take the struggling Canadian department store operator private.

Broadly speaking, across Asia, access to growing and deepening markets, a younger and informed consumer demographic and increasing income disposal all bode well for M&A.

Brian Chia explains,



**"I don't think as a region Asia Pacific can be and will be ignored," says Brian Chia. "It's such a big and disparate region, but I suspect that North Asia will command the dollar and more of the deal attention simply because of the wider pool of consumers, and the velocity of the increasing consumer dollars is faster."**

## CHALLENGES FACING THE SECTOR

Global political uncertainty means that CG&R companies continue to take a more cautious approach toward dealmaking.

Alyssa Auberger explains, "I don't think that this is the time when companies will go on a buying spree just for fun; rather, more than ever, acquisitions will be examined from a strategic standpoint. Companies in the sector will ask themselves, do we need this or should we be thinking more about employing our capital to improve our operations? How can we improve our operations to make things stronger, better and responsive to changing customer demand?"

IPOs are also suffering due to uncertainty. "I think those will be consistent with many of the other industries — it's volatility, volatility, volatility," says Adam Farlow. "That volatility tends to be linked to the ongoing trade conflicts and global macroeconomic headwinds."

Uncertainty surrounding the US-China trade war may also prove a challenge to future growth, as Brian Chia explains, "With the unprecedented level of global trade complexities we are currently experiencing, including tensions between China and the US, within North America, and Brexit, we may well be seeing the trend to globalization move into reverse. As a result, international trade, and managing business-critical supply chains, has never been so challenging to navigate."

Most companies have a significant portion of their supply chain in China, either directly or through their suppliers.

Given these uncertain times, many global companies are considering redrawing the geographic lines of their supply chains. Brian adds, "Consumer goods companies are usually the first to move sites and / or restructure their supply chains due to low barriers of specialization and availability of raw materials."

These challenges may also bring opportunities. With more and more companies in the sector facing financial distress as a result, this could provide opportunities.

Alyssa Auberger reiterates the tentative behavior that CG&R players may be feeling in response to the current political situation. "I think that whatever happens next year with the US elections and with Brexit will have some impact," she explains. "Aside from highly strategic acquisitions, next year may well be a bit of a wait-and-see moment."

A wait-and-see situation is indeed what the overall CG&R space seems to be experiencing in the short-term. The growing uncertainty has led players to be very careful in plotting out their next moves, waiting to see how the markets will turn before they execute their plan. While companies go about business as usual, they will take more time to assess first, which may lead to less deals made in the near future.

Notwithstanding this, the challenges facing the industry mean that many more companies are facing financial and operational distress. In some instances, these may be attractive targets for strategic investors who can be nimble.

## FOR MORE INFORMATION PLEASE CONTACT:



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