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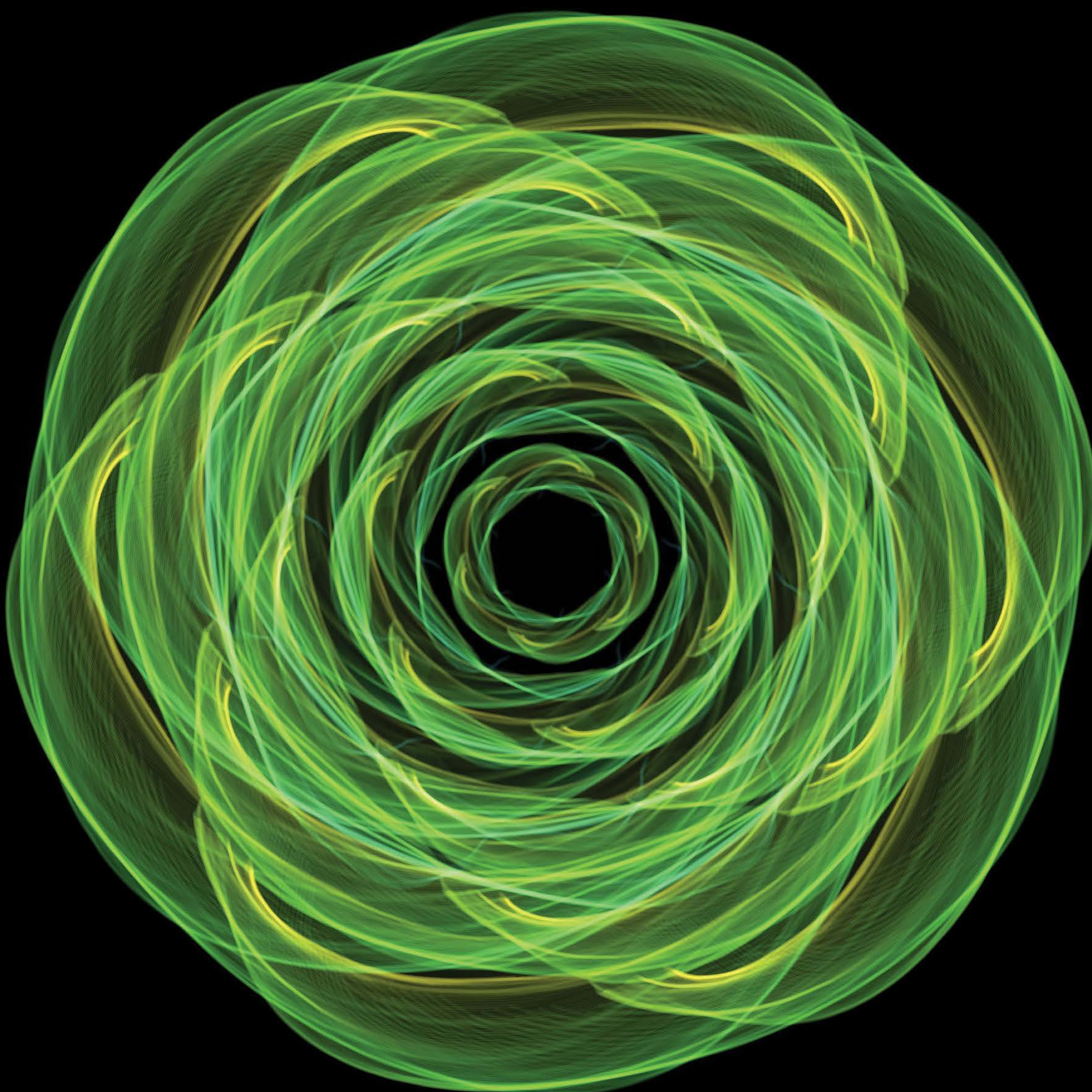

Make-or-break moments in the consumer sector:

Insights into M&A and post-pandemic recovery

Mergers and acquisitions (M&A) are some of the most complex events an enterprise can undertake. Whether it's a transaction, integration, or separation, M&A activity can make or break an organization. When COVID-19 evolved into a worldwide pandemic, M&A was the last item on the agenda for many organizations in the consumer industry. Uncertainty loomed and recovery was hard to imagine. But, amid the chaos, opportunities to strengthen or streamline have presented themselves for many consumer businesses.

As economies started to emerge from lockdown in the second half of 2020, M&A activity resumed at a rapid pace. Faith in the vaccine has been a critical factor in recovery; $63 billion worth of deals were announced just a week after news broke of an effective one against COVID-19. More than $3 trillion worth of deals were completed in 2020 across all sectors worldwide, with $2 trillion of that happening in the second half of the year (H2)—the second-highest H2 values ever recorded. In the consumer sector, global deals worth $404 billion were announced in 2020, a 77% year-over-year increase in M&A, according to Deloitte analysis based on data from Thomson One database.

We recently surveyed more than 1,000 North American consumer executives. Our results indicate that, as pandemic safety restrictions relax, M&A has become a strategy to accelerate recovery in the industry. Other factors driving this acceleration include large amounts of corporate cash ready for deployment on the balance sheets of large companies and strong interest from financial buyers with significant unspent cash reserves. Using our industry experience and analysis of current market trends, we've identified several important themes that will drive the M&A market in the consumer sector.

These include well-capitalized companies making **bold, transformational acquisitions**, smaller deals with **disruptive M&A** themes (like the acquisition of innovative and sustainable **technologies**), joint ventures, and venture capital investments. In addition to these, there is a growing focus on strategic reviews, **portfolio optimization**, and the **disposal of non-core assets**.

This significant rise in M&A activity, however, has increased regulatory scrutiny and sovereign or nationalistic protectionism—countries or regulators disapproving of M&A deals to protect their national interests. Considering the continued economic uncertainty, some players in the consumer space may view M&A decisions with caution, preferring to improve their profitability organically.

As they consider their path toward recovery, M&A executives have two primary strategies: defensive and offensive. Companies that are looking ahead to reorganization or portfolio re-optimization might consider a defensive M&A strategy. This can involve raising capital to strengthen the balance sheet, refocusing on the core areas of the business, and improving efficiency by divesting non-core assets. This type of strategy can be used to unlock value, safeguard markets to maintain competitive parity, pursue acquisitions to prepare for the next normal, and explore ways that M&A can close gaps in the business's portfolio. Companies who have been less severely impacted by the pandemic will need to build financial resilience by extracting deep synergies from recent deals. Many will consider alliances or co-investment opportunities to reduce risk and capital outlay in their core business.

Companies not as severely impacted by the pandemic are more likely to adopt a range of offensive M&A strategies. These involve making big bets and transforming a business in ways that can safeguard the organization's future. Examples include accelerating a digital transformation to capture additional revenues or exploring opportunistic deals that preserve the core business. Offensive strategies also include actively pursuing transformative acquisitions like new digital channels, agile operating models, and supply chain links. By adapting to the irrevocable changes of their business models, these innovations could help organizations define a new world order through the power of alliances.

During the past year, there have been several notable examples of each of these deal strategies:

Defensive deal strategies

- **The J.M. Smucker Company's sale of Crisco to B&G Foods.** Through this sale, J.M. Smucker Company exited the US baked goods market and shifted its focus to the company's core brands in pet foods, coffee, and snacks.
- **PepsiCo's acquisition of Rockstar Energy Drink.** This allowed PepsiCo to safeguard its markets and maintain competitive parity for its Mountain Dew brand.
- **The Hudson's Bay Company (HBC)'s sale of its minority stake in Saks.com, the e-commerce business of department store Saks Fifth Avenue.** This deal allowed HBC to unlock the potential of its asset base and further strengthen its balance sheet.

Offensive deal strategies

- **Sobeys' acquisition of a 51% stake in e-commerce platform Grocery Gateway.** The deal struck between Sobeys' parent company, Empire Ltd., and Longo's, the owners of Grocery Gateway, ensures both businesses evolve with the future of online food retail, strengthening their respective positions in Canada's increasingly concentrated grocery market.
- **The Home Depot's purchase of industrial distributor HD Supply.** This deal adds a robust product offering and value-added service capabilities to The Home Depot's existing maintenance, repair, and operations business, positioning it as a leading provider in this market.
- **Amazon's acquisition of autonomous vehicle developers Zoox.** Bringing the online e-commerce giant into the self-driving car market could potentially enhance Amazon's distribution network. Offensive deal strategies like this can be game-changers by creating alliances that will capture cross-sector convergence opportunities.
- **Lululemon's acquisition of live-stream screen tech company Mirror.** Athletics-wear manufacturer Lululemon is betting that the exercise-at-home trend will continue after the pandemic ends. With this deal, it also gains opportunities to cross-sell to millions of existing customers.

While these deals demonstrate how M&A can drive recovery in the post-pandemic world, there is no room for error. On average, only one in five companies achieves deal harmony equal to or greater than predicted, making ineffective M&A something that executives in the consumer industry cannot afford to do—especially in this economic climate.

Three main factors can destroy deal value:

1. Not identifying and mitigating deal risks
2. Pursuing cost synergies at the expense of revenue synergies
3. Misaligning integration strategy with the original deal thesis

M&A is going to play a critical role in the consumer sector, whether companies have offensive or defensive strategies. Successful executives should follow three main principles: find the right deal, do the deal right, and see it through.

Connect with Deloitte's M&A team to discover how M&A could be a defining moment for your enterprise.

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