ANNUAL OUTLOOK

SOLOMON

TRENDS IMPACTING CONSUMER AND RETAIL M&A 2025

INTRODUCTION

Following an uncertain and volatile 2024, the business and investment community is eagerly anticipating a busy year ahead for dealmaking.

Before jumping in, we welcome Adam Jaffe from Solomon Partners' Media Group as a Managing Director in our Consumer Retail Group. Adam's deep expertise in the entertainment, leisure, and lifestyle sectors and 15 years of financial advisory experience will further strengthen and broaden our consumer franchise.

Macroeconomic headwinds, consumer pressures, and regulatory dealmaking obstacles weighed on U.S. M&A activity over the course of 2024, resulting in modest volume growth and a year-over-year decline in the number of transactions. Businesses and investors faced an unfavorable macroeconomic environment for the majority of 2024, driven by a combination of elevated interest rates, persistent inflation, and election uncertainty. Overall consumer spending and demand remained relatively resilient despite pressures from cumulative inflation and record-high credit-card debt, but discretionary subsectors were negatively impacted by consumers being intentional with their spending. The high cost of capital and weaker company operating performances led to highly selective dealmaking, with buyers and investors heavily focused on relative value, brand differentiation and achievability of long-term growth expectations. Retail M&A maintained momentum despite the challenging environment, including three high-profile, upper-middle-market transactions that our team advised on: the sale of Chico's FAS to Sycamore Partners, the sale of Hibbett, Inc., to JD Sports Fashion plc, and Hudson's Bay Company's acquisition of Neiman Marcus Group. Consumer M&A also maintained momentum with significant strategic activity; for example, our team advised FATTY Smoked Meat Sticks on its highly strategic sale to Conagra Brands.

The macroeconomic backdrop is looking increasingly robust heading into 2025, and the business and investment community is eagerly anticipating a surge of deal-making activity. Three consecutive interest rate cuts by the U.S. Federal Reserve and the known result of the U.S. presidential election have boosted investor sentiment and consumer confidence. Credit markets continue to outperform, and the Dow Jones Industrial Average, the S&P 500, and the Nasdaq Composite hit all-time highs in December. Financial sponsor deal activity is poised for a resurgence, fueled by lower interest rates, extended investment hold periods, and a massive $1.2 trillion of U.S. private equity dry powder that needs to be deployed.[1] The growing prevalence of artificial intelligence will also create dealmaking opportunities across industries, although the impact on the consumer retail sector remains unclear. While uncertainty remains around the new administration's policies (e.g., tariffs, corporate taxes, anti-trust regulation) and the timing and quantity of future rate cuts, we are optimistic for an acceleration of M&A and capital markets activity in 2025.

What follows are four themes that we believe will drive dealmaking in consumer retail this year.

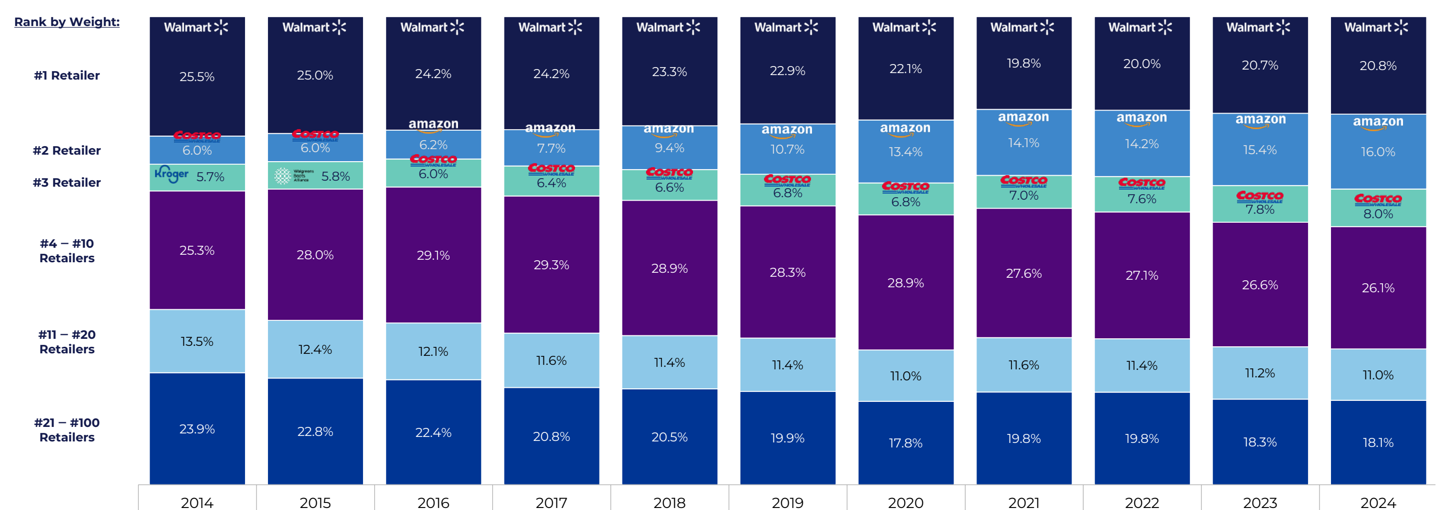
1. Preqin. U.S. PE Dry Powder, excluding Venture Capital and U.S. Based Fund Managers, as of November 2024.

RETAIL GIANTS CONTINUE TO TAKE SHARE & DRIVE OVERALL GROWTH

Over the past half-decade, we accurately predicted and demonstrated how the largest retail players have continued to take share of revenue dollars and public investment in the sector. This year, we furthered our analysis by reviewing trends across a basket of over 200 of the top publicly traded retailers spanning the past two decades, primarily based on the historical holdings of the XRT.[2] From 2004 to 2024, the total market capitalization of the top 100 retailers grew more than 460%, from approximately $940 billion to greater than $5.3 trillion. This tremendous growth was driven by the top 20 retailers, which increased their share of the top 100 retailers' total market capitalization from 79% in 2004 ($740 billion) to over 90% today ($4.8 trillion). The trend of the biggest retailers getting bigger was further amplified in 2024, with Walmart, Amazon[3] and Costco collectively generating over $1.4 trillion in revenue and accounting for 45% of the total revenue earned by the top 100 retailers throughout the year. Walmart and Amazon, the largest two retailers by both revenue and market capitalization, increased their collective market capitalization by 52% year-over-year in 2024 as they continued to distinguish themselves in the marketplace by adapting their business models to respond to shifting consumer demand.

Total revenue of the top 100 retailers grew significantly, from $1.9 trillion in 2014 to over $3.2 trillion today, with Walmart and Amazon accounting for 47% of the top 100 retailers' revenue growth over that period and Amazon alone contributing 33% as it generated a 20% ten-year revenue CAGR. Notably, Walmart and Amazon's share of revenue growth has accelerated, accounting for 84% of the top 100 retailers' revenue growth over the past two years compared to 29% from 2012 to 2014. Furthermore, the top 10 retailers as a group have continued to increase their revenue share of the top 100, growing from 63% in 2014 to 71% today, highlighting the widening gap between the mega-cap leaders and their smaller counterparts.

TOTAL REVENUE OF TOP 100 PUBLIC RETAILERS[2][3][4]



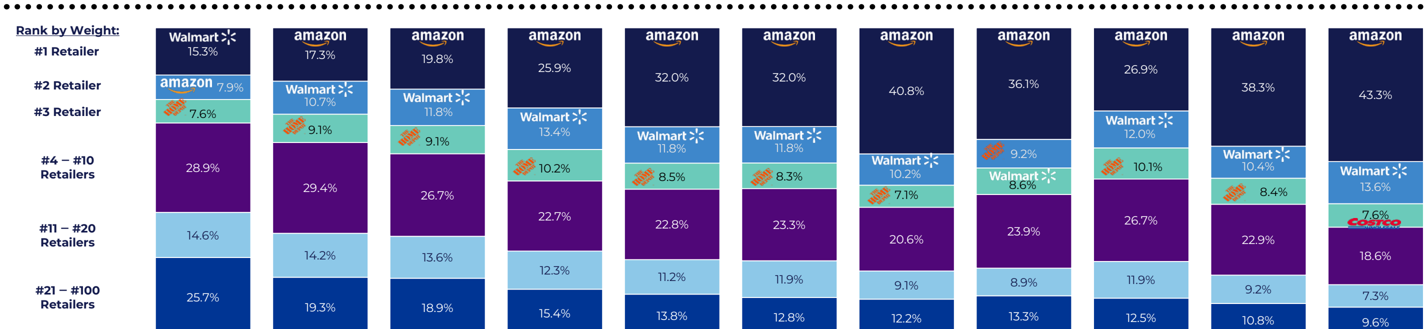
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Revenue ($B)	**$1,903**	**$1,932**	**$2,004**	**$2,072**	**$2,208**	**$2,287**	**$2,534**	**$2,890**	**$3,060**	**$3,138**	**$3,233**
Total YoY Growth	4.8%	1.5%	3.7%	3.4%	6.6%	3.6%	10.8%	14.1%	5.9%	2.5%	3.0%
Top 10% of Total	**62.6%**	**64.9%**	**65.4%**	**67.6%**	**68.1%**	**68.7%**	**71.2%**	**68.6%**	**68.8%**	**70.5%**	**71.0%**

2. Represents a basket of 232 publicly traded retailers primarily based on active and historical holdings of the SPDR S&P Retail ETF (XRT) from 2006 to 2024. The XRT is designed to track the performance of consumer discretionary retailers. Solomon has made adjustments to this index to exclude travel agencies and other businesses that are not in the primary retailing business; additions include consumer staple retailers, hardline retailers, direct-to-consumer/digitally native companies with a retail presence, and apparel/footwear companies with a retail presence not included in the XRT. Financial data from Capital IQ as of December 31, 2024.
3. Amazon revenue figures exclude revenue from Amazon Web Services ("AWS"), which accounted for approximately 17% of total revenue over the last 12 months.
4. Represents calendar-year revenue from 2014 to 2024.

When we discussed this trend at the end of 2018, we attributed the growing dominance of Walmart and Amazon to "large equity market capitalizations coupled with bigger balance sheets and greater purchasing power," which enabled them to "more aggressively use their structural advantages in taking calculated risks." Today, Walmart and Amazon continue to successfully leverage their structural advantages to evolve with the ever-changing retail landscape and capture shifting consumer demand. Walmart has implemented generative AI and digital technologies to drive sales and operational efficiencies via personalized recommendations, improved inventory management, and automated restocking. Walmart has also grown its digital presence through services that streamline customers' purchasing decisions (e.g., Walmart+, BOPIS), and expanded its private-label offering to cater to increasingly price-conscious consumers. Meanwhile, Amazon continues to revolutionize fulfillment with record-breaking Prime delivery speeds and expanded same-day delivery networks, as well as introduce next-generation robotics in its fulfillment centers that predict demand and optimize inventory placement. Amazon has also continued to lower prices and expand its third-party offerings, which, in combination with faster shipping, has resulted in more frequent purchases and larger basket sizes. These calculated moves are the most recent advancements in Walmart's and Amazon's continuous strategic evolution to reinforce their dominant leadership positions.

From a market capitalization perspective, it is no surprise that Walmart and Amazon have consistently led the pack as two of the top-three largest retailers since 2009. Over the past decade, Walmart and Amazon have increased their share of the top 100 retailers' total market capitalization from 23% to 57%, while the remaining retailers in the top 10 declined from 37% in 2014 to 26% today. The consolidation of investment dollars accelerated in 2024, with Walmart's and Amazon's market capitalization increasing 71% and 47%, respectively, over the course of last year, and the combination contributing 84% of the total market capitalization growth for the top 100 retailers during the period. Among the mixed-retailer performance over the past few years, Amazon's meteoric rise stands out, growing from $857 billion of market capitalization at the end of 2022 to $2.3 trillion as of December 31, 2024, representing a ~170% increase. It is also worth mentioning that Costco overtook Home Depot as the third-largest retailer by market capitalization in 2024, with its valuation more than doubling over the past two years as the company leveraged its value-driven positioning and outsized membership program (~40% of U.S. households) to accelerate ecommerce sales (16% year-over-year comparable sales growth in the latest fiscal year ended September 1, 2024). Costco is also now the #2 grocery retailer globally (#3 in the U.S.) based on revenue, with each store generating average grocery sales of approximately $165 million, or roughly 5.0x the grocery sales of the average supermarket.

MARKET CAPITALIZATION OF TOP 100 PUBLIC RETAILERS (2)(5)



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Market Capitalization ($B)	**$1,814**	**$1,836**	**$1,797**	**$2,175**	**$2,296**	**$2,866**	**$4,009**	**$4,686**	**$3,189**	**$4,098**	**$5,331**
Total YoY Growth	11.1%	1.2%	(2.1%)	21.0%	5.6%	24.8%	39.9%	16.9%	(31.9%)	28.5%	30.1%
Top 10% of Total	**59.7%**	**66.5%**	**67.4%**	**72.2%**	**75.0%**	**75.4%**	**78.7%**	**77.8%**	**75.6%**	**80.0%**	**83.1%**

5. Represents market capitalization as of December 31 from 2014 to 2024.

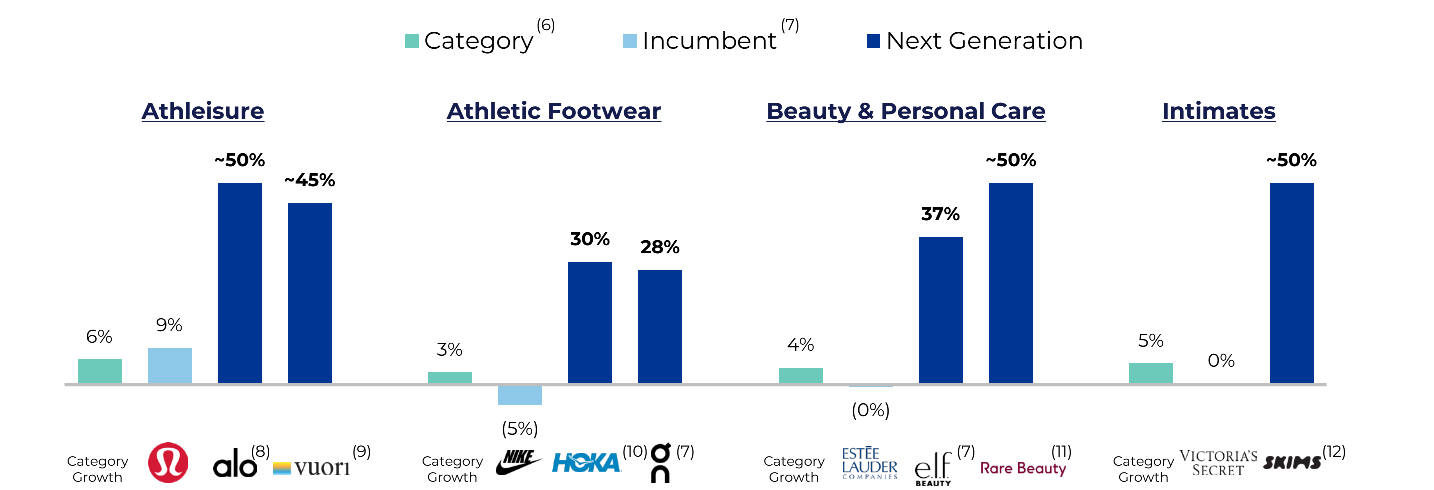
Amazon's rapid market capitalization growth, Walmart's decades-long leadership position, and Costco's momentum are the latest manifestations of the continually increasing dominance of mega-cap retailers. As we've highlighted in prior years, this perpetual consolidation trend underscores a critical takeaway for consumer product companies, retailers, and brands: aligning with the largest players is essential to remain competitive and avoid being left behind in an increasingly winner-take-all environment.

NEXT-GENERATION BRANDS CONTINUE TO EMERGE ACROSS CATEGORIES

Consumers today are experiencing decision fatigue as they shop from a seemingly endless aisle of options while being inundated by information. In a world of increasing noise, brands simplify decisions for consumers, allowing them to express individual identities and signal community membership. Despite the scale and cost-of-capital advantages enjoyed by incumbents, next-generation brands continue to emerge, disrupt, and win share by providing differentiated products, services, and experiences. Challenger brands can leverage democratized media and social adoption to quickly establish both legitimacy and scale, but sustained success requires a carefully structured combination of product differentiation, brand-elevating content, social validation, and omni-channel distribution:

- **Product Differentiation:** superior performance and price-value versus competitors through product design, features, and technologies, supported by a strong innovation pipeline and category expertise in sourcing, materials, and construction
- **Brand-Elevating Content:** cohesive, high-quality, cross-channel content that conveys brand values while building emotional connectivity with consumers
- **Social Validation:** legitimacy and social relevance through peer adoption and validation from relevant authorities, influencers, and celebrities
- **Omni-Channel Distribution:** go-to-market strategy balanced between ecommerce and physical retail, creating a seamless customer journey across channels

YEAR-OVER-YEAR GROWTH BY CATEGORY, INCUMBENT AND NEXT-GENERATION BRAND



6. Reflects estimated year-over-year category growth in the U.S. in CY2024 based on the following Technavio reports: Global Athleisure Market 2024-2028, Global Athletic Footwear Market 2024-2028, Global Beauty and Personal Care Products Market 2024-2028 and Global Intimate Apparel Market 2024-2028.
7. Per Capital IQ as of December 31, 2024. Represents estimated CY2024 year-over-year growth based on actual revenue for CY2023 and median analyst revenue estimates for CY2024 as of December 31, 2024.
8. Reflects CY2023 year-over-year revenue growth per Earnest Analytics (December 2024).
9. Reflects CY2023 year-over-year revenue growth per CNBC (December 2024).
10. Reflects year-over-year growth for the 12-month period ended September 30, 2024, per Deckers Outdoor Corporation company filings.
11. Reflects CY2023 year-over-year revenue growth per Business of Fashion (January 2024).
12. Reflects estimated CY2023 year-over-year revenue growth per Bloomberg (October 2023).

Next-generation brands represent attractive opportunities for both strategic buyers and financial sponsors to acquire businesses with significant growth potential, attractive audiences, and differentiated products. For strategics, next-generation brands can enhance portfolios and cultural relevancy while adding categories and capabilities, particularly for incumbents struggling with lack of newness or innovation. For sponsors, emerging brands have the ability to generate outsized returns with a combination of sustainable growth and proven profitability in large addressable markets. Across categories and cycles, challenger brands remain a constant, with the velocity of disruption accelerating as capital intensity in retail eases.

ENDURING TRENDS DRIVING CONTINUED DEALMAKING ACTIVITY IN THE FOOD & BEVERAGE SECTOR DESPITE BROADER CONSUMER HEADWINDS

While the food and beverage ("F&B") sector demonstrated relative strength versus its discretionary counterparts in 2024, broader consumer pressures weighed on organic growth across the sector. Many consumers traded down to high-quality, private-label offerings and/or shifted to value-oriented channels (e.g., Walmart, Costco) to stretch their dollars, even as food inflation materially subsided over the course of the year. Meanwhile, many consumers continued to seek brands with better-for-you ("BFY") attributes, particularly those featuring clean ingredients and addressing snacking occasions, or possessing functional attributes that enable food to act as medicine. SPINS data shows that sales growth of natural products continued to outpace that of conventional products across channels, and sales growth of independent brands outpaced that of brands owned by CPG conglomerates. Taken altogether, these shifts have resulted in minimal on-shelf growth for major F&B corporates, with expected 2024 year-over-year growth of only 1% for a composite of 10 leading F&B companies, following 9% growth in 2022 and 6% in 2023.[13]

To combat this lack of growth, F&B strategics that have strong cash positions and "fortress" balance sheets are actively focused on reshaping and modernizing their portfolios by transitioning away from stale brands that no longer resonate with today's consumers and turning to M&A to fill voids in their portfolio or transform their product offerings. Strategics have shown significant interest in scaled, high-performing brands that deliver on taste and product quality, demonstrate strong repeat purchasing and consumer affinity, tap into mainstream appeal with the ability to sell across channels and settings, capture attractive consumer demographics, capitalize on the secular shift in preferences (e.g., BFY/healthier snacks, functional foods, global flavors) and have compelling growth vectors across product types, formats, channels, and geographies. Best-in-class assets with these characteristics have achieved exceptional valuations, as strategics leveraged cash on hand and potential synergies to ascribe premium valuations of low to mid-single-digit revenue multiples and high-teens to low-20's EBITDA multiples.

In early January 2025, baked-goods leader Flowers Foods announced its pending acquisition of better-for-you snack-maker Simple Mills, providing Flowers with compelling new growth opportunities. In August 2024, Mars agreed to acquire Kellanova, a global leader in high-quality, affordable snacks known for its iconic brands such as Pringles, Cheez-It, and Pop-Tarts, in a $35.9 billion transaction that transforms Mars' snacking portfolio and positions the combined entity to shape the future of sustainable snacking. Similarly, in November, Mondelez approached Hershey, a leader in confections and BFY snacks, regarding a potential takeover. This approach was rejected by the Hershey Trust but would have significantly enhanced Mondelez's portfolio and global footprint. PepsiCo agreed to acquire Siete Foods, a scaled Mexican-American brand offering premium, BFY salty snacks, tortillas, sauces, and sweets, to further build out its BFY offering while tapping into consumers' increasing appetite for international flavors. Keurig Dr Pepper agreed to acquire GHOST, a disruptive, lifestyle sports nutrition brand, to strengthen its position in the attractive energy drink category and extend its reach to new consumers. Conagra Brands acquired FATTY Smoked Meat Sticks, a rapidly growing, premium brand disrupting the meat-snacking category, to enhance Conagra's strength in protein-led snacking, led by its Slim Jim brand. Solomon advised FATTY Smoked Meat Sticks on this highly strategic transaction. These recent marquee deals underscore the strategic priority of M&A in the F&B sector and point to continued dealmaking activity in 2025.

Heightened M&A activity by strategics in 2024 was contrasted by more tempered interest from financial sponsors, as private equity firms navigated elevated cost of capital, consumer softness concerns, and the sustained gap between buyer and seller valuation expectations. Heading into 2025, sponsor deal activity in the F&B sector is set to rebound with the expectation of improved market conditions. Advent International's recently announced $1.5 billion acquisition of Sauer Brands, a scaled condiments and seasonings platform anchored by its Duke's brand of mayonnaise, illustrates private equity interest in resilient food businesses poised for organic growth and acquisitions. Gryphon Investors' reported pending acquisition of Spindrift demonstrates that private equity firms also remain interested in high-growth premium brands in F&B, particularly in categories such as non-alcoholic beverages where strategic buyers have limited appetite. Furthermore, secular shifts in demographics and consumer preferences present attractive investment opportunities across the F&B landscape for private equity firms to capitalize on. Multicultural foods with international flavors are increasingly being adopted by American consumers due to their combination of authenticity and mainstream appeal. Consumers continue to seek out BFY products that deliver on taste and value as well as functional foods that boost health and energy levels, and the emerging brands aligned with these shifts are driving growth across categories and channels. Additionally, the expanded use of GLP-1 agonists and greater scrutiny by regulatory agencies on ingredient panels and food formulations, particularly those that cater to children, will also have a profound impact on U.S. consumption. We expect these trends to create opportunities for investment and consolidation over time.

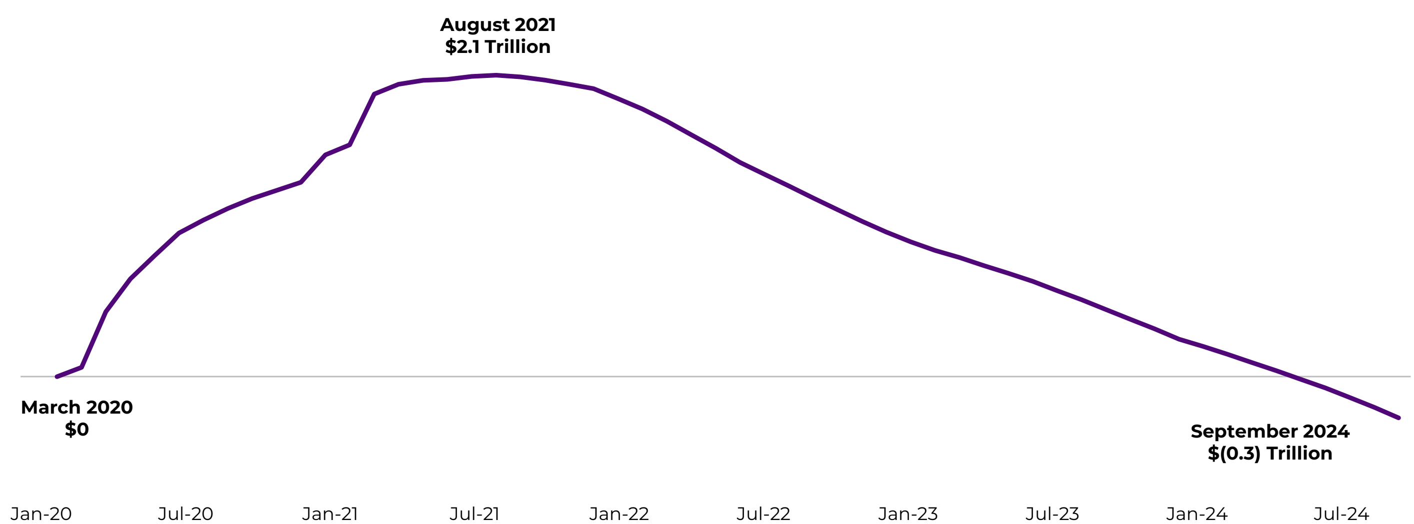
The significant strategic activity in 2024 is a bellwether for increased dealmaking in 2025, as high-profile deals and outsized outcomes will incentivize sellers across the F&B landscape to enter the market. Additionally, the growth in BFY food and beverage is enduring. This is evidenced by United Natural Foods reporting 14% year-over-year growth in its "supernatural" channel (including Whole Foods) in the most recent quarter, representing an acceleration from prior quarters. This tends to indicate that the premium natural consumer demand is strong and accelerating broadly. Looking ahead, we expect corporates to continue to pursue M&A in order to supplement low organic growth, and private equity firms to play a larger role in F&B dealmaking as they look to monetize existing portfolio companies and invest in platforms and emerging brands aligned with consumer-driven growth trends.

13. Per Capital IQ as of December 31, 2024. Represents estimated CY2024 year-over-year growth figures based on actual revenue for CY2023 and median analyst revenue estimates for CY2024 as of December 31, 2024 for GIS, HSY, KDP, KHC, KO, MDLZ, MNST, NESN, PEP, and TSN.

EXPERIENTIAL ENTERTAINMENT POISED TO RETURN TO HEALTHY GROWTH FOLLOWING NORMALIZATION

Following the social distancing measures, business shutdowns, and travel restrictions of the COVID-19 pandemic, the experiential entertainment industry saw a resurgence to all-time highs. Pent-up demand for experiences coupled with significant excess savings led to tremendous growth in 2021 and 2022 across live entertainment, family entertainment, cruise operators, and theme parks. Demand for site-based and experiential entertainment remained resilient in 2023 despite rising economic uncertainty and consumer pressures, as budgets shifted toward more affordable and convenient entertainment alternatives instead of one-time expensive and extravagant travel outlays. Although economic uncertainty and spending headwinds continued to weigh on consumers in 2024, sustained demand for immersive, in-person engagements and travel experiences led to continued record-breaking performance by live entertainment venues and cruise operators. However, the challenging consumer environment and shifting economic conditions adversely affected the family entertainment sector, particularly as excess pandemic-era savings were fully depleted in April 2024. Following average year-over-year growth of ~40% in 2022 and ~10% in 2023, top-line growth for both Dave & Busters and Top Golf is expected to be slightly down in 2024, driven by declines in same-store sales growth. [14]

CUMULATIVE PANDEMIC-ERA EXCESS SAVINGS [15]



We expect a return to steady growth in 2025 as the experiential entertainment industry normalizes after multiple years of pandemic-driven volatility. Demand for experiences and entertainment will continue to grow as the macroeconomic environment improves and consumers revert to pre-pandemic spending patterns. The stabilized operating environment will spur increased dealmaking in the experiential entertainment industry, particularly as buyer and seller expectations continue to reach equilibrium and sellers look to transact after limited M&A activity in the sector over the past few years.

14. Per Capital IQ as of December 31, 2024. Represents estimated CY2024 year-over-year growth figures based on actual revenue for CY2023 and median analyst revenue estimates for CY2024 as of December 31, 2024.
15. San Francisco Federal Reserve. March 2020 represents beginning of pandemic savings, therefore represented as $0. Excess savings calculated relative to March 2020 baseline.

CONCLUSION

We expect a robust consumer and retail M&A market in 2025. Positive sentiment has spread across the business and investment community, fueled by the improved macroeconomic backdrop and more favorable dealmaking climate. With the U.S. presidential election concluded, the U.S. Federal Reserve in the midst of a rate-cutting cycle, favorable credit markets, and public equities near all-time-highs, boards and management teams have greater confidence to act on strategic decisions that may have been delayed during the challenging environment of the past few years. Despite lingering consumer pressures and regulatory uncertainty, the market appears to be reaching a steady equilibrium, and both buyers and sellers are showing increased appetite and conviction in pursuing M&A.

As always, our experienced consumer and retail advisory team is here to help you navigate the ever-changing market landscape and capitalize on opportunities that may strengthen the competitive and financial position of your business. We wish you a productive and prosperous 2025.

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