WARWICK M&A GROUP

# Consumer

## Sector Report



Weak consumer spending impacts M&A activity

Aurelius' acquisition of The Body Shop

Mars' acquisition of Hotel Chocolat

Nov 2023
Issue #6

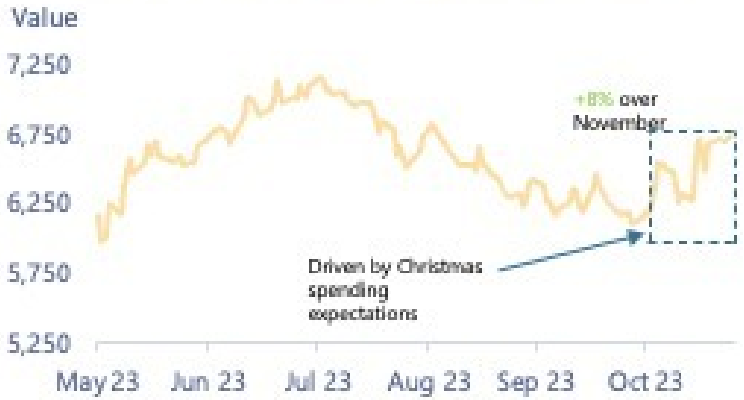
# Recent market turmoil opens up opportunistic M&A. Fortune favours the brave..?

## November in numbers

| $10.5bn | 42 | $250.4m |
|---|---|---|
| Total deal value (November 2023) | No of deals closed | Average deal value |
| *-23.0% (YoY)* | *-6 (YoY)* | *-3.74% (YoY)* |

| | | | |
|---|---|---|---|
| **Average TEV/Revenue:** | 1.06x | **Average Day Prior Premium:** | 8.47% |
| **Average TEV/EBITDA:** | 6.44x | **Average Week Prior Premium:** | 7.51% |
| **Average TEV/EBITDA:** | 10.97x | **Average Month Prior Premium:** | 7.29% |

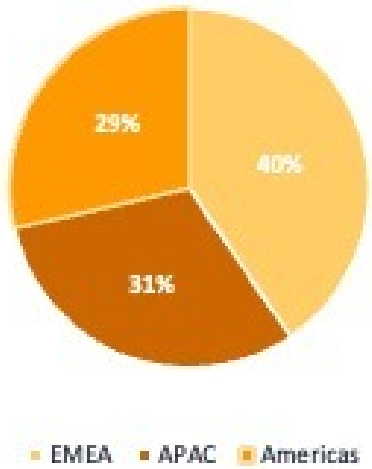
## S&P Retail Select Industry Index




## Sectoral insight

- The Consumer & Retail sector has seen a **slowdown in M&A activity** in November, as continued macroeconomic uncertainty over inflation, interest rates and GDP growth impacts key decision-makers within the sector.
- Recent data from the Office of National Statistics shows that UK consumers are forecasted to **decrease their Christmas spending** by £3bn (-13%) in comparison to 2022. Additionally, UK consumer spending fell 0.3% in October, as sustained inflation began to bite. This contrasted with a forecasted 0.3% increase.
- The current issues within the sector could cause **an increase in distressed M&A** as tight margins, costly financing and decreased revenues damage profitability. This could favour cash-rich buyers such as private equity firms, as they capitalise on depressed valuations and look to generate financial synergies from undervalued assets.

## Deal count by region




Sources: Capital IQ, S&P

# Aurelius set to acquire struggling The Body Shop for £207m

## Acquirer: AURELIUS

AURELIUS is a private equity firm specialising in spin-off transactions, management buyouts and strategic acquisitions in special target industries, investing in private and public companies with up to €250m.

| | |
|---|---|
| **Market Cap:** | £306.3m |
| **EV:** | £592.2m |
| **LTM Revenue:** | £2,546.3m |
| **EV / LTM EBITDA:** | 4.4x |
| **Employees:** | 150 |

## Target: The Body Shop

The Body Shop is a British retail company founded in 1976, manufacturing and selling beauty products, such as skincare and body care products. It operated as a subsidiary of Natura & Co Holding.

| | |
|---|---|
| **Market Cap:** | £653.4m |
| **EV:** | £207m |
| **LTM Revenue:** | £408m |
| **EV / LTM EBITDA:** | - |
| **Employees:** | 2,568 |

Sources: Capital IQ, MergerMarket, Company Disclosures.

## Transaction Summary

- AURELIUS agreed to acquire The Body Shop International Limited from Natura & Co Holding S.A. on November 14, 2023
- The total consideration includes £90 million earnout subject to certain conditions and the price and the earn-out will be payable in up to five years after closing
- The transaction is subject to approval by the relevant competition and regulatory authorities, and is expected to close on December 31st, 2023

## The Body Shop´s Acquisition History

| £652.3m | £860m | £207m |
|---|---|---|
| L'ORÉAL | Natura &co | AURELIUS |
| 2006 → | 2017 → | 2024 |

| | |
|---|---|
| **Announcement date:** | 14/11/2023 |
| **Offer per share:** | N/A |
| **Transaction value:** | £207m |
| **Expected closing date:** | 2024 |
| **Acquirer adviser(s):** | Lazard |
| **Target adviser(s):** | Morgan Stanley |

# Aurelius set to acquire struggling The Body Shop for £207m

## Rationale and Outlook

**Operational Optimisation:** AURELIUS' operational taskforce will collaborate with The Body Shop's experienced management team to optimise operations and develop offerings across various channels, aiming to drive operational excellence.

**Aurelius' Experience:** AURELIUS aims to drive operational excellence across The Body Shop, leveraging its experience in omnichannel retail and wholesale markets with its ownership of businesses like Footasylum and Lloyds Pharmacy, and reaching a more varied audience.

**Strategic Focus:** To improve its fortunes, AURELIUS plans to broaden The Body Shop's pricing architecture, potentially appealing to a wider customer base who prioritise value for money.

**Commitment to Sustainability:** The Body Shop's concept of minimising environmental impact aligns with and deepens AURELIUS' strategic focus on ESG investments

## The Body Shop´s weakening performance

**The Body Shop´s market share in the health & beauty market 2015-2023E**




## However, there are some risks associated with the deal...

**Financial Performance:** The Body Shop has experienced six consecutive quarters of losses, reflected in a reduced acquisition price, significantly lower than the £860m that Natura paid in 2017.

**Market Positioning:** The Body Shop's struggle in recent years has been attributed to consumers opting for more affordable retailers over premium brands. This shift has necessitated a rethink in its pricing strategy and market positioning, creating some uncertainty.

**Post-Pandemic Performance:** During the pandemic, The Body Shop excelled as consumers invested in premium products, reaching a market share peak of 1.4% in 2020. However, this demand has since declined, with market share dropping to 0.8% in 2022 and expected to remain flat in 2023.

## Potential Synergies with Aurelius` Portfolio

FOOTASYLUM

LloydsPharmacy

CalaChem

Hallo Healthcare Group

**AURELIUS owns over 100 companies with a strong focus on consumer goods, industrial enterprises and chemicals, creating various synergy opportunities**

Sources: Capital IQ, MergerMarket, Company Disclosures.

# Mars agrees to acquire Hotel Chocolat in £534m deal

## **Acquirer:** Mars, Incorporated

Mars is one of the world's largest food companies and the fourth-largest privately held firm in the US. It was founded in June 1911 by the Mars family. It has an extensive brand portfolio across Petcare, Snacking, and Food and Nutrition including confectionary giants Snickers to Pedigree dog foods and Dolmio sauces. Mars, Inc. is home to c. 30 chocolate brands, including Milky Way, Snickers and M&M.

| | |
|---|---|
| **Employees:** | 130,000+ |
| **LTM Revenue:** | £35.4bn |
| **Implied TEV*:** | £85bn |

*using a comparable company analysis, Capital IQ: TEV/Rev median = 2.4x

## **Target:** Hotel Chocolat Group plc

Hotel Chocolat Group plc (AIM:HOTC) is a UK chocolate retailer founded in 1993. It has a differentiated product offering, world-class product quality and strong direct-to-consumer capabilities through its physical store presence and sophisticated digital commerce platform. It also offers hot chocolate makers, under the Velvetiser brand, and alcoholic beverages.

| | |
|---|---|
| **Market Cap:** | £505.0mn |
| **Net Debt:** | £36.8mn |
| **LTM Revenue:** | £204.5mn |
| **EV/ LTM EBITDA:** | 25.2x |
| **Employees:** | 2,000+ |

[1]as of closing price on 15th Nov 2023; Sources: Capital IQ, MergerMarket, Company Disclosures.

## Transaction Summary

- On November 16th 2023, Mars announced it will acquire Hotel Chocolat for £534m in an all-cash transaction on a **fully diluted basis.**
- The deal is through Hive Bidco, Inc, a wholly owned in-direct subsidiary of Mars
- The deal is valued at 375p per share representing a 169.8% premium on the closing share price of 139 pence [1]
- Mars will keep existing management team, and "does not envisage making any material reduction to Hotel Chocolat's overall headcount"

## Strong background in entrepreneurial acquisitions...

| NATURE'S BAKERY | trü frü | KIND |
|---|---|---|
| Acquired on: **02/12/20** | Acquired on: **01/02/23** | Acquired on:**19/11/18** |
| Deal Value: **$400mn** | Deal Value: **Undisclosed** | Deal Value: **Undisclosed** |

| | |
|---|---|
| **Announcement date:** | 16th November 2023 |
| **Offer per share:** | £3.75 |
| **Transaction value:** | £534m |
| **Implied Premium:** | 169.8% |
| **Acquirer adviser(s):** | Morgan Stanley |
| **Target adviser(s):** | Lazard, Liberum |

# The acquisition will expand Mars's portfolio...

## Rationale and Outlook

Mars believes that the two businesses are culturally aligned with shared values of quality, sustainability and purpose among their guiding principles which is committed to shaping the future through excellent business today.

The synergy capabilities unlocked through the deal, specifically economies of scale and cross-selling opportunities, propel the brand for its upcoming growth stage and is secured by robust commercial connections, serving as a foundation for expansion both in the UK and across global markets.

The deal is positioned to support Hotel Chocolat's long term strategic objectives with access to long term capital as well as providing a purpose led, family-owned business environment with a proven track record of growing entrepreneurial brands, including KIND, Nature's Bakery and Tru Fru.

## However, there are some risks associated with the deal...

The international market has proven difficult for Hotel Chocolat to break into historically with their previous attempts into the US and Japan failing to unlock full scaling potential.

A challenging macroeconomic backdrop with operational supply chain challenges lead to a reported loss of £6.2mn in FY23, which presents a barrier in achieving ambitious business plan targets.

## Expand existing brand portfolio

HOTEL Chocolat.

SNICKERS · Twix · M&M's

DOLMIO · Hubba Bubba · Uncle Ben's

Whiskas · Banfield PET HOSPITAL · Pedigree

**Expanding into UK market, preserving traditional recipes**

Sources: Capital IQ, MergerMarket, Company Disclosures.

# We selected 4 deals with potentially the biggest impact on the industry…

**November 29th, 2023** — **n/a**

Casino supermarchés

Plans major divestments

Intermarché, Auchan, Carrefour, Aldi

**Stage of the deal:** ○○●○○ **Chances of success:** Medium

**Comment:** Divesting Casino group's hyper- and supermarkets to reduce debt would enable the group to restructure amid its current bankruptcy proceeding.

Potential reductions of the group's assets to inner-city stores could see revenues decreasing more than 75% by 2025, threatening up to 50,000 jobs.

Bids from French food retailers Intermarché, Système U, Auchan, Carrefour and German discount chains Aldi and Lidl are expected in the coming days.

**November 24th, 2023** — **£4.8bn**

Boots

Transferred pension obligations to:

Legal & General

**Stage of the deal:** ○○●●● **Chances of success:** Closed

**Comment:** Transferring the firm's pension obligations could pave the way for Walgreens Boots Alliance to sell the UK's biggest pharmacy chain. In 2022, a potential sale was abandoned, as bids did not reflect the expected valuation.

By offloading its pension scheme, Walgreens is reducing liabilities which previously put off acquirers, signalling a potential sale of the company in early 2024.

Financial & strategic advisors: Cardano, Aon

**November 21st, 2023** — **Undisclosed**

SKKY Partners

Bought a minority stake in:

TRUFF

**Stage of the deal:** ○○●●○ **Chances of success:** High

**Comment:** Truff, a luxury condiments brands, marks the first investment by newcomer PE firm SKYY Partners, co-founded by Kim Kardashian and Jay Sammons.

Growing rapidly in consumer packaged goods and maintaining a premium brand positioning, Truff aligns closely with SKYY's investment strategy.

With the deal set to close early 2024, it remains to be confirmed whether the firm can build and maintain a competitive advantage.

**November 17th, 2023** — **n/a**

MISSONI

Advised on a potential sale by:

Rothschild & Co

**Stage of the deal:** ○○●○○ **Chances of success:** Medium

**Comment:** To date, fashion brand Missoni remains controlled by its founding family who still owns 59% of the business.

Following demand by larger luxury groups, the family is considering both divestments and a potential sale, the latter on which it is advised by Rothschild & Co.

Preparations to initiating a formal process have already begun, with CEO Livio Proli being optimistic about potential synergies as part of a larger group.

Sources: Capital IQ, MergerMarket, Company Disclosures.

# Glossary

**Distressed M&A:** As opposed to traditional M&A, involves mergers or acquisitions of companies with financial problems, risk or bankruptcy and insolvency proceedings; these companies will usually sell at a high discount compared to traditional M&A transactions.

**Spin-off transaction:** Partial sale of a business unit, division or subsidy from its parent company. Unlike a carve-out, where the subsidy is going public (usually involving an IPO), a spin-off distributes shares of the subsidy to the parent company's shareholders, potentially generating a higher valuation than the parent company and generating shareholder value.

**Earnout:** A conditional provision paid depending on the acquired business's performance. Earnouts mitigate risk for buyers by allowing them to pay a lower amount upfront and resolve a potential conflict in price expectations between buyer and seller.

**Fully diluted share price:** A valuation or transaction agreed on a fully diluted basis implies a value per share based not only on the amount of existing shares, but also on all other shares promised or granted to employees, institutions and business partners – including employee stock option plans and convertible bonds.

# The Team



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