WARWICK M&A GROUP

# Consumer

## Sector Report

Low deal values despite strong deal performance

Campari's acquisition of Courvoisier

Unilever's divestment of Elida Beauty to Yellow Wood Partners



Dec 2023
Issue #7

# Strong deal performance towards the year´s end with lower values...

## December in numbers

| $13.26bn | 241 | $55.02m |
|---|---|---|
| Total deal value (December 2023) | No of deals closed | Average deal value |
| *-45.0% (YoY)* | *+216 (YoY)* | *-17.53% (YoY)* |

| | | | |
|---|---|---|---|
| **Average TEV/Revenue:** | 0.58x | **Average Day Prior Premium:** | (5.63%) |
| **Average TEV/EBITDA:** | 6.28x | **Average Week Prior Premium:** | (6.79%) |
| **Average TEV/EBIT:** | 15.59x | **Average Month Prior Premium:** | 3.36% |

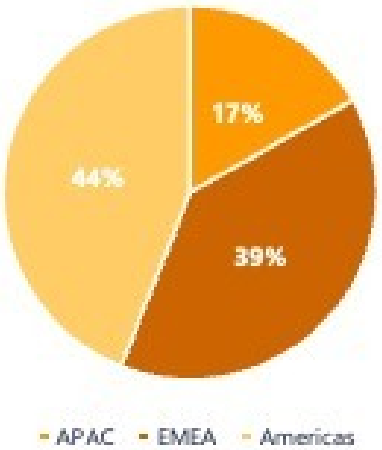
## S&P Retail Select Industry Index




## Sectoral insight

- **Overall Sales Growth**: U.S. retail sales, excluding automotive, saw an increase of 3.1% during the holiday season. This growth was observed despite the challenging economic conditions and represented a mix of online and in-store shopping trends. Online retail sales experienced a 6.3% year-over-year increase, while in-store sales grew by a more modest 2.2% over the same period.
- **Increased Popularity of BNPL-Services**: Buy Now Pay Later options gained traction among consumers, especially due to the economic challenges of high inflation and uncertainty in the labour market. There had been an observed trend of these services targeting younger demographics through partnerships with trendy online brands. However, this introduces certain credit risks due to overextended borrowing.
- **Restructuring Activity and Distressed M&A**: An increase in restructuring activity was seen, particularly in retail and parts of the leisure subsector, due to lower growth, pressure on margins, and higher financing costs. This trend led to distressed M&A opportunities, with cash-rich corporates and private equity funds expected to be the likely buyers.

## Deal Count by Region




Sources: Capital IQ, S&P500

# Campari acquires Courvoisier for $1.2bn

## **Acquirer:** Davide Campari-Milano, N.V.

The Campari Group was founded in 1860 in Italy and operates in the branded spirits sector. It has accumulated a portfolio of over 50 brands, including Aperol and Campari. Campari Group trades in over 190 countries, focusing on America and Europe.

| | |
|---|---|
| **Market Cap:** | $12.7bn |
| **EV:** | $14.8bn |
| **LTM Revenue:** | $3.2bn |
| **EV / LTM EBITDA:** | 19.0x |
| **Employees:** | 4,500 |

## **Target:** Courvoisier (sold by Beam Suntory, Inc.)

Courvoisier, established in 1828, specializes in the distillation, blending, and production of Cognac. Renowned for its range of fine Cognacs, the company serves its clientele from its historic base in Jarnac, France.

| | |
|---|---|
| **Revenue:** | $215mm (FY22) |
| **EBITDA:** | $24.7m (FY22) |
| **Implied TEV:** | $645m (TEV/Rev: 3.00x multiple)* |
| **Premium paid:** | $555m |
| **Employees:** | 3,300 |

## Transaction Summary

- Campari agreed to acquire French cognac brand Courvoisier from Beam Suntory for $1.2 billion.
- Gruppo Campari intends to fund the transaction using a combination of cash on hand, debt, and equity or equity-like instruments.
- According to Reuters, Campari obtained a €1.2bn fully committed bridge loan with a duration of up to 24 months.
- The transaction is expected to close in 2024 with a payable earn-out of $0.12bn due in 2029.

## The Campari Group´s Acquisition History




**Since 1995 nearly 40 acquisitions, approximately $4.4bn total value**

| | |
|---|---|
| **Announcement date:** | 14/12/2023 |
| **Transaction value:** | $1.2bn |
| **Expected closing date:** | 2024 |
| **Financial advisors:** | Goldman Sachs, PwC |

Sources: Capital IQ, Bloomberg, Reuters, Company Disclosures. *Effectuating a comparable company analysis to determine Courvoisier's TEV resulted in a median TEV/Revenue multiple of 3.00x.

# The acquisition will expand Campari's reach and market power...

## Rationale and Outlook

The acquisition of Courvoisier represents Campari's largest purchase and a significant step in diversifying its portfolio to include a major presence in the brandy segment, complementing its existing focus on aperitifs, bourbon, and tequila.

The deal aims to boost Campari's presence in key markets, particularly the United States, where Courvoisier accounts for 55% of its sales, and the Asia Pacific region, including China, enhancing Campari's competitiveness against larger industry rivals like Diageo and Pernod Ricard. The acquisition positions Campari for favourable long-term trends in the cognac market.

Replicating their strategies behind other acquisitions, Campari aims to restructure the Courvoisier brand, leveraging their inhouse marketing model to substantially grow its performance, which is expected to increase Campari's net sales by around 9% and earnings per share by 2%.

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

The acquisition of Courvoisier is expected to initially reduce Campari's gross profit margin by 0.8%, indicating a short-term financial strain on the company's profitability.

The $1.2 billion price tag for Courvoisier is substantial, and the need to finance this through a mix of cash, debt, and potentially equity-linked instruments could pose risks related to increased debt burden or dilution of existing shareholders' equity. An earn-out of up to $120 million payable in 2029 adds to the long-term financial commitments of Campari.

The current decline in demand for cognac in the U.S., Courvoisier's largest market, coupled with the challenge of relaunching Courvoisier as a global luxury brand, exposes Campari to longer-term market and branding risks in its effort to compete with rivals.

Sources: Capital IQ, FT, Reuters, Company Disclosures

## Expand existing brand portfolio




**Expansion into US and Asia Pacific markets**

# Unilever divests Elida Beauty to Yellow Wood Partners

## Acquirer: Yellow Wood Partners

Yellow Wood Partners is an American Private Equity firm, which invests exclusively in the consumer sector. They target brands with $15-100m EBITDA, providing an equity investment of $35m-200m+.

| | |
|---|---|
| **Year Founded:** | 2011 |
| **AUM:** | $1.8bn |
| **No. funds raised:** | 3 |
| **No. portfolio brands:** | 35 |
| **Employees:** | 25 |

## Target: Elida Beauty

Elida Beauty was formed in 2021, as part of Unilever's portfolio reorganisation. It became a formalised unit under Unilever Personal Care in 2022, and contains brands such as Q-tips, VO5, and Alberto Balsam.

| | |
|---|---|
| **LTM Revenue:** | $760.0m |
| **TEV / LTM Revenue*:** | 2.12x |
| **Implied TEV:** | $1.61bn |
| **No. portfolio brands:** | 20+ |
| **Employees:** | 224 |

## Transaction Summary

- Yellow Wood Partners agreed to acquire Elida Beauty from Unilever PLC on December 18, 2023. The financial terms of this deal are undisclosed.
- The transaction is part of Unilever's corporate strategy to realign its brand portfolio and divest its underperforming brands in an effort to boost performance.
- The transaction is expected to be completed by Q2 2024, upon the completion of customary closing and regulatory approvals from the relevant authorities.

## Yellow Wood Partners: financial and operational expertise in consumer brands

| Suave | Dr. Scholl's | Freeman Beauty |
|---|---|---|
| Acquired on: **09/05/23** | Acquired on: **02/06/21** | Acquired on: **14/08/17** |
| Deal Value: **Undisclosed** | Deal Value: **Undisclosed** | Deal Value: **Undisclosed** |

| | |
|---|---|
| **Announcement date:** | 18/12/2023 |
| **Offer per share:** | N/A |
| **Expected closing date:** | Q2 2024 |
| **Acquirer adviser(s):** | N/A |
| **Divestor adviser(s):** | Morgan Stanley |

*Using the 25th percentile of public comparable companies, see valuation slide for further details. Sources: Capital IQ, MergerMarket, Company Disclosures.

# A win-win deal? Only time will tell...

## Rationale and Outlook

**Operational Optimisation:** Yellow Wood Partners has extensive operational expertise within the consumer space. Over the course of 5 years, Yellow Wood Partners were able to increase PDC Brands' revenue by 4x and EBITDA by 5x. It is expected that this trend will be seen with Elida Beauty, as Yellow Wood Partners joins forces with the management team to transform the business.

**Consumer brand acquisitions:** Yellow Wood Partners is seeking to build an extensive portfolio within the consumer industry, and, more specifically, beauty brands. Elida Beauty will complement brands such as Tanologist, Plum Beauty, Freeman Beauty, and Byoma, and this creates the opportunity for synergy-driven growth across the entirety of the Yellow Wood Partners portfolio.

**Strategic Divestment:** For Unilever, this transaction is part of a larger theme of divesting its underperforming brands. Unilever has previously sold Lipton to CVC in 2022, and Upfield to KKR in 2018. This is so that Unilever can improve its fortunes by focusing on its top 30 brands, which deliver 70% of the group's revenues.

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

**Valuation:** For Yellow Wood Partners, the price being right is important, as Elida Beauty has historically struggled and requires an extensive overhaul. If Yellow Wood Partners did not secure an appropriate discount on Elida Beauty's valuation, then this will damage future returns and potentially sour the deal.

**Macro Headwinds:** Issues such as inflation and supply constraints have plagued Elida Beauty in recent years, which has damaged sales volumes and revenues. If these headwinds continue into 2024, this could cause further issues for Elida Beauty's performance.

**Debt Financing:** To finance this deal, Yellow Wood Partners likely took out considerable debt. In the current high interest rate environment, this debt will be expensive, and therefore it is of paramount importance that Elida Beauty improves performance, as otherwise negative returns could be possible.

## Unilever – divestments to focus on top brands, improve share price




**Divestments in 2023**

elida BEAUTY

DOLLAR SHAVE CLUB

Suave

**Divestments in 2022**

Lipton

BEN & JERRY'S

Unilever

Unilever Life – direct selling business in Thailand

Sources: Capital IQ, MergerMarket, Company Disclosures.

# Elida Beauty: likely purchased at a heavy discount

## Public Comparable Companies

| Name | Market Cap | Share Price | TEV | LTM Revenue | TEV/Revenue |
|---|---|---|---|---|---|
| L'Oréal S.A. | $ 266,902.90 | $ 497.96 | $ 246,375.70 | $ 40,468.40 | 6.09x |
| Coty, Inc. | $ 11,074.60 | $ 12.42 | $ 15,663.40 | $ 5,805.50 | 2.70x |
| The Estée Lauder Companies Inc. | $ 52,335.10 | $ 146.25 | $ 60,383.10 | $ 15,498.00 | 3.90x |
| Ulta Beauty, Inc. | $ 23,794.70 | $ 489.99 | $ 25,772.80 | $ 10,897.80 | 2.36x |
| Sally Beauty Holdings, Inc. | $ 1,417.90 | $ 13.28 | $ 2,970.50 | $ 3,728.31 | 0.80x |
| Bath & Body Works, Inc. | $ 9,751.60 | $ 43.16 | $ 15,049.60 | $ 7,405.00 | 2.03x |

## Valuation Methodology

In valuing Elida Beauty, the 25th Percentile for the TEV/Revenue trading multiple has been used. This discounted, lower-end multiple represents the following deal characteristics:

**Acquirer Profile**: Given the fact that Yellow Wood Partners are a private equity firm, it is highly likely that this deal was a leveraged buyout, and, if this was used in valuation negotiations, then this would provide a lower valuation than a discounted cash flow model or a market-based valuation method.

**Previous Performance**: Elida Beauty's lacklustre performance since its inception is a key factor in Unilever's motivations, and this poor performance is reflected in the valuation by using the 25th Percentile (lower end) of the trading multiples.

**Time Pressure**: Given that this deal is part of Unilever's strategic divestment drive, Unilever likely faced time pressure in this deal to deliver on their corporate strategy and create value for shareholders, who suffered a difficult 2023 as Unilever stock fell 15.5% from April to December. These factors may have motivated Unilever to accept a discounted valuation to initiate a deal.

## Trading Multiples and Percentiles

| Multiples | |
|---|---|
| | TEV/Revenue |
| Mean: | 2.98x |
| 25th Percentile: | 2.12x |
| Median: | 2.53x |
| 75th Percentile: | 3.60x |

## Valuation Calculations

| Valued Company | LTM Revenue | TEV |
|---|---|---|
| Elida Beauty | $ 760.00 | *$ 1,607.78* |

Sources: Capital IQ, MergerMarket, Company Disclosures.

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

**December 12th, 2023** — **$700m**

BREITLING

To acquire:

UNIVERSAL GENÈVE

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

**Comment:** Partners Group portfolio brand Breitling, a Swiss watchmaker, has acquired Universal Genève. This deal serves as Breitling's first major acquisition, positioning the business among the top 10 Swiss watchmakers by 2022 revenue and could hint towards a stronger competition with multi-brand houses like Swatch or Richemont.

The deal is expected to be finalized in early 2024. The first new Universal Genève watches under Breitling management are anticipated to hit the market in 2026.

**Legal Advisor:** Niederer, Kraft & Frey (seller's advisor)

**December 27th, 2023** — **$3.5bn**

Approves the sale of:

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

**Comment:** The NBA Board of Governors approved Mark Cuban's sale of the controlling interest in the Dallas Mavericks to casino mogul Miriam Adelson and her family.

Cuban is expected to maintain control of the Mavericks' basketball operations while Patrick Dumont will serve as the Mavericks' governor.

It is speculated that this sale will allow the Adelson family to push for legal gambling in the state of Texas, in order to expand its casino business outside of California.

The deal is expected to close in the coming days.

**December 6th, 2023** — **Undisclosed**

Yum! KFC

To acquire franchises from:

EG Group

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

**Comment:** Yum Brands' KFC division is set to acquire 218 KFC restaurants from EG Group, the company's largest KFC franchisee in the UK and Ireland.

The strategic acquisition enables KFC to accelerate growth strategy in the growing UK and Ireland chicken market whilst also enhancing digital capabilities. Such a deal will cement Yum!'s position as market leader and help the company secure further market share across the British fast food restaurant sector.

Yum! anticipates the transaction to close by the end of the first half of 2024.

**December 21st, 2023** — **$2.0bn**

LEVINE LEICHTMAN CAPITAL PARTNERS

Explores sale potential sale of:

tropical SMOOTHIE CAFE

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

**Comment:** Levine Leichtman, owner of Tropical Smoothie Cafe is exploring a potential sale of the American restaurant chain for up to $2 billion, at a 20x EBITDA multiple.

The restaurant sector is recovering strongly post COVID-19 related restrictions.

This sale encourages other private equity firms to explore potential exit opportunities for their restaurant portfolio companies.

**Financial Advisors:** R.W. Baird

Sources: Capital IQ, MergerMarket, Company Disclosures.

## Glossary

**Bridge loan:** Also known as interim loan, a short-term (6 months - 1 year) loan until the borrower secures long-term financing to replace the bridge loan. In M&A transactions, bridge loan commitments can help provide assurance that financing will be available for the acquisition on closing date, regardless of the acquirer's current financing possibilities.

**Leveraged buyout:** Typically used by private equity funds, an LBO is an acquisition model to buy a company with a significant amount of debt (usual debt/equity ratio of 2.0-3.0x). Often, the acquired company's assets are used as a collateral for the loans, and the acquirer is looking to increase the target's profitability to pay off the loans that had been taken to buy the target.

## The Team



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